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Taiwan Commercial Guide 1999

Prepared by the  
American Institute in Taiwan

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This Country Commercial Guide (CCG) presents a comprehensive look at Taiwan's commercial environment using economic, political and market analyses.

The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies. In Taiwan, the Country Commercial Guide is prepared by the American Institute in Taiwan.

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## **I. Executive Summary**

Over the past forty years, hard work and sound economic management has built the island of Taiwan into the world's 13th largest economy. Taiwan is an economic powerhouse with the world's third largest foreign exchange reserves and over \$235 billion in two-way trade. The economy is expanding at 6% with full employment and low inflation while other other economies in the region are shrinking. Its 21 million people enjoy a per capita Gross Domestic Product of \$12,500. As Taiwan has grown richer, the formerly authoritarian system has evolved into a democracy. Opposition by the People's Republic of China (PRC) to any recognition of Taiwan as a separate political entity has limited Taiwan's official diplomatic activity for years. But Taiwan has broad-based unofficial relationships with most of the world's major economies, including the U.S. Democratic politics, a robust economy, and economic liberalization shape the Taiwan market.

Taiwan's high level of imports -- \$114 billion in 1997 -- reflects its status as a resource-poor trading entity. The island imports nearly all of its energy needs, most of the raw materials needed to maintain industrial production, and a diversity of manufactured and agricultural goods. It is the fifth largest importer of U.S. agricultural products. Taiwan has a tradition of welcoming foreign investment and technology. Its educated work force, advanced infrastructure, strategic location, and generally pro-business attitudes make Taiwan an excellent -- if no longer low-cost -- place to invest. Taiwan is the world's largest supplier of computer monitors, motherboards, image scanners, mice, and keyboards. Other electronic products, chemicals and industrial production machinery are additional major exports.

A significant portion of Taiwan's economy is still in public sector hands, but the inexorable movement towards liberalization is clear. The Taiwan authorities continue to reduce tariffs as part of Taiwan's anticipated eventual accession to the World Trade Organization. Accession is also prompting the removal of many of the non-tariff barriers that have especially limited agricultural imports. Restrictions on financial institutions are gradually being lifted. Several public sector firms have been privatized, and private sector competition is being introduced in telecommunications, power generation, and oil refining and distribution.

Taiwan has a unique political history. In 1945, Taiwan was restored to Chinese rule after 50 years as a Japanese colony. In 1949, Chiang Kai-Shek's Nationalist army retreated to Taiwan and the Nationalist (KMT) party has ruled the island ever since. Until the mid-1980s the KMT maintained a single-party rule. Beginning in the mid-1980's and accelerating in the first half of the nineties, however, the political system has been transformed into a democracy. During Legislative Yuan (LY) elections in 1995, the ruling KMT emerged with only a single seat majority; and in late 1994, an opposition member was elected Mayor of Taipei, Taiwan's largest city; Taiwan's first direct presidential elections were held in March 1996. The press is free, though at times unreliable, and political debate is unconstrained and vigorous.

Democratization has changed the business climate in Taiwan. Executive officials used to the old, authoritarian ways of getting things done find their actions scrutinized by an active press and an aggressive legislature. This scrutiny leads to delays and reversals. Power -- which used to be concentrated in the KMT and the executive institutions it controlled -- is now diffused through several institutions. Accomplishing anything requires talking to many different parties, building coalitions and compromising. Taiwan's legal infrastructure has also been changing, although many businesspeople complain of unrealistic wording in regulations and inconsistent enforcement.

Taiwan's relationship with the People's Republic of China remains problematic. Both entities have long asserted that there is one China. The Taiwan authorities seek recognition as one of what they claim are two legitimate political entities, each governing part of China, while the PRC regards itself as the sole legal government of all of China, and Taiwan a renegade province. (The largest of Taiwan's opposition parties voices support for independence for Taiwan.) When Taiwan attempted to expand its international recognition in the months prior to Taiwan's 1996 March presidential elections, the PRC responded with strong rhetoric, military exercises and missile tests dangerously close to Taiwan territory.

Since the elections, tension has eased. And despite long-standing political differences, commercial ties between the two sides of the Taiwan straits have grown steadily since the late 1980s. The spring of 1997 saw the first direct crossings of the Taiwan Strait by ocean freighter since 1949. Taiwan is a major investor in Mainland China, and Mainland China is now second only to the United States as Taiwan's largest export market. Taiwan enjoys a huge trade surplus with Mainland China, and its role in the PRC market could well

continue to increase. Taiwan wants to establish itself as a regional operations center for third-country businesses aiming at regional markets. Taiwan is also an important trading and investment partner for Southeast Asian countries.

Taiwan is an excellent market for U.S. firms. Taiwan firms and consumers are receptive to foreign products, have money and are not afraid to spend. Taiwan is a leading producer of Personal Computers(PCS). Its chemical, steel and Integrated Circuits (IC) industries have ambitious expansion plans, and the authorities are liberalizing the power generation and telecommunications markets. On the consumer front, 70 percent of Taiwan households are wired for cable TV (more than in the U.S.);Taiwan travelers took over 6 million trips overseas in 1996 and spent on those trips the most of any Asian nationals after Japan; and 13.2 million people now have life-insurance policies.

U.S. exports to Taiwan range from steam boilers to soybeans. U.S. investors range from giants such as IBM, to individuals offering translation and legal services. The competition in the market is fierce, with Japanese firms well-entrenched and late-coming Europeans capturing market share. Nonetheless, Taiwan consumers generally have strong feelings of goodwill toward the U.S. and favorable images of U.S. products. U.S. firms with good products at competitive prices will find Taiwan a rewarding market.

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<NREC>Taiwan02 Taiwan: Economic Trends and Outlook <A>=Taiwan

## **II. Economic Trends and Outlook**

### **Major Trends and Outlook**

Taiwan has maintained relatively good economic fundamentals for the past two years, despite a series of shocks, including

increased tensions with the PRC in 1996, and an outbreak of swine foot-and-mouth disease (FMD) that severely damaged Taiwan's pork export industry in 1996. The financial turmoil that has buffeted Southeast and Northeast Asia since mid-1997 has also taken its toll on the island's economy.

Taiwan's economy has continued to grow, although the growth rate has declined slightly from 6.8 percent in 1997 to an estimated six percent in 1998. Full employment prevails, with the rate of unemployment dropping from over three percent in August 1997 to 2.3 percent in April 1998. Prices have been stable, with the inflation rate as measured by the consumer price index coming in below one percent in 1997 and 1.67 percent in May of 1998. However, inflationary pressures are increasing, both from heavy rains in late May and early June 1998, which flooded farms and drove up produce prices, as well as from the depreciation of the NT dollar, which has driven up import prices. Capital outflow, one factor in the currency depreciation, has dampened the stock market and pushed the balance-of-payments (BOP) into a deficit for the first quarter of 1998. As a result, Taiwan's foreign exchange reserves declined. Nevertheless, the reserves, amounting to \$84 billion as of April, are still the world's third largest, after Japan and the PRC.

### **Principal Growth Sectors**

Momentum for Taiwan's economic growth in the past two years has come largely from expansion of domestic demand, especially in the private sector. While exports leveled off in 1997 and then declined 7.5 percent in the first five months of 1998, both private consumption and private investment have grown substantially. Thus, the private sector's share of GDP increased from 71.9 percent in 1996 to 72.8 percent in 1997 and an estimated 74.9 percent in 1998. Meanwhile, the GDP share for exports net of imports declined from 3.8 percent in 1996 to 2.6 percent in 1997 and an estimated 2.1 percent in 1998.

On the supply side, the services sector has been growing fast. Services, which accounted for only 55 percent of GDP in the early 1990s, reached 62.5 percent of GDP in 1997. A number of trust companies were transformed into commercial banks. A dozen credit cooperatives were reorganized into or merged with banks. New insurance, securities, and futures firms have emerged. Offshore futures trading was first permitted in 1994, and a futures exchange is expected to begin operations in late 1998. New financial services, such as automatic teller machines and credit cards, have become common. New financial derivatives have been introduced and are thriving. Kaohsiung, in the south, is the world's third largest container port. Two

U.S. companies have located their Asian regional air cargo hubs in Taiwan.

The island has been making progress in realizing its ambition - first expressed a decade ago -- to transform itself from an export platform into a high-tech production center. Taiwan exports of high-tech and capital-intensive goods exceeded exports of labor-intensive goods for the first time in 1993, surpassed the 60-percent-of-total-exports mark in late 1995, and held a share of 63 percent in 1997 and 64 percent in early 1998.

The Taiwan authorities have been encouraging investors to avoid the Chinese mainland since the cross-strait tensions of 1995 and 1996. However, Taiwan investment in the PRC has continued to grow. Approvals for PRC-destined investment amounted to \$12 billion as of March 1998, although actual investment in the PRC could well exceed \$37 billion. This investment has fueled Taiwan's exports to the PRC, much of which are transshipped via Hong Kong. Shipments to Hong Kong shot up from seven percent of Taiwan's total exports in 1986 to 23.5 percent in 1997, nearly catching up to the U.S. share of 24.2 percent. Growth in exports to Hong Kong, which had slowed from a rate of over 22 percent in 1995 to three percent in 1996 and seven percent in 1997, declined by four percent in the first four months of 1998, as a consequence both of cross-strait tensions (for 1996) and the East Asian financial crisis. During the same period, the United States has remained Taiwan's largest overall trading partner, largest export market, and the second largest supplier of Taiwan's imports. However, Taiwan's investment in and exports to Southeast Asian countries have decreased.

While Taiwan's industrial sector has shrunk in relative terms, capital- and technology-intensive industries have expanded dramatically. These industries accounted for 70 percent of total manufacturing in 1997 and over 71 percent in March of 1998, compared to 48 percent in 1986. During this structural transition, labor-intensive industries, such as toys, footwear, umbrellas, and garments, have relocated offshore. Their place has been taken by petrochemicals, metal products, machinery, and other capital-intensive industries, all of which expanded greatly during this period. In the early 1990s, technology-oriented industries, such as electronic, electric, and information products, quickly evolved to become the backbone of Taiwan's manufacturing sector. By 1997, five of the top ten manufacturing firms were electronic and computer manufacturing firms, compared to only two in 1993. Five of the top ten manufactured products in 1997 were integrated circuits (ICs), personal computers, and computer peripherals. Five years earlier, only ICs were among the top ten. Taiwan is now the

world's leading supplier of motherboards, monitors, personal computers, mice, keyboards, video cards, sound cards, switching power supplier LAN cards, graphics cards, scanners, and laser disk drives. Taiwan is also one of the major semiconductor suppliers in the world. The transition from the production of labor-intensive goods to high-tech goods has proceeded smoothly. Regional financial turmoil in 97/98 has neither driven up unemployment nor caused the kind of social disturbances common in neighboring economies.

In the past two years, Taiwan has made great progress towards accession to the World Trade Organization (WTO). It has concluded bilateral consultations with all of the 26 economies save the European Union (EU). In negotiations with the EU, only the auto-tariff issue remains unresolved. By the middle of June of 1998, Taiwan had signed agreements with 22 of the 25 economies. Of 41 bills implementing commitments related to Taiwan's accession to WTO submitted to the Legislative Yuan, 29 have already passed.

### **Public Role in the Economy**

Taiwan has been reducing the public sector's role in the economy in an effort to reduce the central budget deficit. Since export performance has been poor due to depreciation of currencies in East Asia, Taiwan's authorities have adopted a new policy to stimulate domestic demand. A number of big construction projects (including a north-south high-speed railway and a large-scale public housing program) have been consigned to private firms to execute on a build-operate-transfer basis. A government re-engineering program is under way. Under the program, several ministerial agencies will be merged or phased out. The scale and functions of the Taiwan Provincial Government will be cut.

Privatization has gained momentum over the past year. Equity shares in a number of state-owned enterprises (including three large provincial banks) have been listed on the stock exchange and sold to private investors. The three largest state-owned firms (i.e., China Petroleum Corp., Taiwan Power Company, and Chunghwa Telecom Corp.) will be privatized in three to five years.

A sharp increase in outstanding debt from seven percent of GNP in FY91 (ending June 1991) to 19 percent in FY98 has driven up debt-service payments over the past five years. Debt-service payments climbed from about nine percent of the central budget in FY93 to 14 percent in FY98 and an estimated 16 percent in FY99. With the authorities' efforts to reduce the size of the public sector, both the outstanding public debt and debt-

service payments are expected to decline. These efforts have made the goal of balancing the budget by FY2001 possible. National defense continues to account for the lion's share of the central budget, although national defense expenditures as a percentage of total central budget expenditures have dropped from over forty percent four decades ago to twenty percent today. Other major spending items include education, science and culture, economic development, and social welfare.

### **Balance of Payments Situation**

In 1997, Taiwan's current account surplus fell thirty percent, and the overall BOP went into deficit. Among the leading causes were the epidemic of swine foot-and-mouth disease (FMD), which seriously cut exports to Japan, and the East Asian financial crisis. With the trade surplus down by 20 percent, the current account surplus was 30 percent lower than the previous year and no longer large enough to offset Taiwan's outflows in the capital account. (A major capital exporter, Taiwan runs a deficit in both the capital-transfer account and the investment account.) East Asian financial instability led portfolio investors to pull their funds out of the island in 1997 and early 1998.

### **Quality of Infrastructure**

Taiwan has an extensive infrastructure system. Two international airports are located at the north and south ends of the island. Fourteen domestic airports connect major cities and key offshore islets. Five international harbors facilitate import and export trade. Toll highways form an extensive inland transport network, including a north-south freeway. A round-the-island railway was completed in late 1991. The average family has more than one telephone. Pagers, cellular phones, fax machines, and personal computers are common for business firms. Virtually every family has access to electricity and household tap water, except in mountainous and remote areas.

Traffic congestion on public roads and freeways however has been common. Almost every first-class railway passenger car is over-booked on holidays. Air traffic has nearly quintupled over the past decade, and delays in domestic flights are common. Kaohsiung Harbor is the third-largest container port in the world, and the average waiting time for entry reaches nearly seven hours. Power supply has been tight, especially in the summertime.

Taiwan has stepped up infrastructure construction. Eleven private firms have been authorized to build power plants. When

two of these eleven power plants go into operation in 1999, the reserve capacity of the power grid will increase from the under ten percent common earlier in the decade to 18 percent. Two business groups have been authorized to build a north-south bullet railway and a rapid mass-transit system between CKS Airport and Taipei City. These projects, together with the development of regional operations centers, may help improve Taiwan's infrastructure.

### **III. Political Environment**

Over the past decade, Taiwan has made the transition from a single-party, authoritarian polity to a democratic, multi-party political system. Martial law, which had been in force since the 1940's, was lifted in 1987. Taiwan's first democratically elected legislature was chosen in December 1992. The democratization process continued with the first direct elections of the Mayors of Taiwan's two largest cities (Taipei and Kaohsiung) and the Governor of Taiwan Province in December 1994. These officials were previously appointed by the central authorities. After the second fully democratic election for the national legislature was held in December 1995, Taiwan completed its democratization by holding the first direct election of its President in March 1996.

Taiwan's constitutional system divides the government into five branches or Yuans. The five branches are the Executive Yuan, the Legislative Yuan, the Judicial Yuan, the Control Yuan and the Examination Yuan. At the top of this structure is the President.

The Kuomintang (KMT, or Nationalist Party), which ran the previous authoritarian government on Taiwan, still holds most of the key political posts on the island. The KMT currently holds 83 of 164 seats in the Legislative Yuan (LY). Currently the President is also the Chairman of the KMT and appoints the heads of the Yuans, including the head of the Executive Yuan, the Premier. The LY must confirm the President's nominees for these positions. Despite its razor-thin majority in the LY, when push comes to shove the KMT has been able to muster the votes to achieve its most important goals.

The main opposition party is the Democratic Progressive Party (DPP). The Party's most salient policy difference with the KMT has been the controversial issue of Taiwan independence. As the DPP has matured and gained a significant role in the LY, where it now holds 54 of the 164 seats, it has modified its demand for immediate Taiwan independence. Some members of the party now call for the people to decide Taiwan's future through

a plebiscite, while others assert that Taiwan is effectively independent already so a formal declaration of independence is unnecessary. The DPP has also staked out generally populist positions of concern for the environment and for working people.

The KMT was historically associated on Taiwan with ethnic Mainlanders (i.e., people who fled to Taiwan with the KMT in 1949 and the descendants of those people). The DPP has sought to identify itself with the ethnic Taiwanese (Chinese who immigrated to Taiwan during the past 300 years, mostly from Fujian Province). As the democratization process proceeded, the ethnic Taiwanese role expanded. Today, a majority of the officials and members in the KMT, including the President, are now ethnic Taiwanese. In part as a reaction, a new opposition party broke off from the KMT in 1993. The Chinese New Party (CNP) is dominated by second-generation "mainlanders" who have grown up in Taiwan. The party made dramatic gains in the 1995 LY elections, but still only controls 21 of the 164 seats in the legislature. Yet, although ethnic differences are still significant politically, their importance is declining as younger generations pay less attention to this question.

The defining characteristic of Taiwan's international relationships is its lack of diplomatic ties with most nations of the world. The authorities on Taiwan call their administration the "Republic of China," and for many years claimed to be the legitimate government of all China. Foreign nations wishing to establish diplomatic relations with a government of China could recognize the "Republic of China" or recognize the People's Republic of China (PRC), but not both. Most chose to recognize the PRC. The PRC was admitted to -- and Taiwan left -- the United Nations and most related organizations in the early seventies. The U.S. switched diplomatic recognition to the PRC in 1979.

The Taiwan authorities several years ago changed policies and now no longer insist that they are the sole legitimate rulers of all of China. While still admitting that Taiwan is part of China, they now seek recognition as one of two "legitimate political entities" in China, the other being the PRC. Under this policy, the Taiwan authorities are seeking to join various international organizations, including the United Nations. Taiwan has been able to join the Asia-Pacific Economic Cooperation (APEC) dialogue as an "economy" and is applying to join the World Trade Organization (WTO) as a "customs territory." Twenty eight countries currently maintain diplomatic relations with Taiwan.

Although the United States does not have diplomatic relations

with Taiwan, the U.S.-Taiwan relationship is generally excellent. The American Institute in Taiwan (AIT), a private, non-profit institution, was established in 1979 to maintain the unofficial relations between the peoples of the United States and Taiwan. More than thirty other countries, including most major European and Asian nations, also maintain unofficial representation.

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<NREC>Taiwan03 Taiwan: Political Environment <A>=Taiwan

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<NREC>Taiwan04 Taiwan: Marketing U.S. Products and Services  
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#### IV: Marketing U.S. Products and Services

Taiwan is the U.S.' seventh largest export market. U.S. goods enjoy a reputation for quality on the island; the reputation for high quality, however, is coupled with a reputation for high-cost and, sometimes, poor service from U.S. vendors. Nearly every type of sales channel exists on Taiwan: U.S. goods reach end-users through agents, distributors, franchisees, direct marketing, mail order, and almost any other imaginable means. Distribution policy varies depending on the type of product and the end-user of the product, but all distribution channels are changing rapidly under the pressures of new demands from sophisticated Taiwan consumers, intensified competition from foreign and domestic rivals, and the introduction of new information technologies to the distribution chain.

Marketing products is too complex a subject to be covered in such a brief space, so the comments made here are of necessity very general. Taiwan end-users tend to make purchasing decisions based primarily on price -- although ironically a higher price may be more attractive to the Taiwan buyer of certain kinds of consumer goods. A strong local presence, with a wholly-owned subsidiary, branch office, joint venture, or agent/distributor, is another key to success in the market.

Taiwan is a land of small businesses and traders who import from all over the world. The strength of Taiwan's economy is

not in its few large firms -- although Taiwan has grown a handful of firms whose presence is beginning to be felt in world markets -- but in its multitudinous small-to-medium-sized firms. There are over one million registered businesses on Taiwan. The island has 99,000 legal factories and probably another 200,000 illegal factories. To sell to these firms, a U.S. firm must find a local partner. Although it may be possible to supply a few types of highly specialized products directly from the U.S., most U.S. firms will find it necessary to have some kind of local presence to market and service their products.

### **Sales Channels**

Most firms enter the market with a Taiwan agent. Taiwan firms prefer the partnering aspect of an agent relationship. Although some firms are willing to act as distributors, there is a fear that firms seeking distributors are not serious about the market and will not support their distributor. Firms selling equipment or machinery frequently find it necessary to find a partner willing and able to do some assembly or manufacturing in Taiwan. Although not necessarily a formal joint venture, these efforts require a higher degree of commitment to the marketplace. If the size of the market warrants, firms may wish to consider setting up a branch office or subsidiary in Taiwan. Taiwan welcomes foreign investments and establishing an office in Taiwan is relatively easy, if sometimes bureaucratically cumbersome.

There are many ways to find an appropriate agent or distributor in Taiwan. The Commerce Department's Agent/Distributor Service (ADS) program offers U.S. firms a cheap and easy way to identify potential partners. The Taipei Importers and Exporters Association has over 100,000 members and is well equipped to help foreign exporters find an agent from among its members. Most Taiwan industry associations publish lists of their members. The China External Trade Organization (CETRA) has four offices in the United States and these offices contain a wealth of information on Taiwan. A listing of CETRA's U.S. Offices is included at the end of this section.

### **Pricing**

The most important consideration for most Taiwan buyers is initial price. The most common complaint against U.S. goods is that their price is too high. Taiwan businesspeople are notoriously short-term oriented, and U.S. firms are frequently frustrated by the fact that most Taiwan firms do not consider the life-cycle cost of a product when making a purchase. Although attitudes are slowly changing, most Taiwan firms will

only pay a higher price for a product if they see an immediate payoff in reduced costs. It is difficult to sell a product that is more expensive now, but which will be cheaper over two years -- increase the payback time to four or five years and the sale becomes almost impossible. After price, the next most important considerations are quality of the goods and after-sales service.

## **Market Exposure**

Taiwan businesspeople are active participants in the global marketplace. They read trade journals from the U.S., Europe and Japan, participate in the major international trade events, and are well aware of current trends in their industry. There are local trade shows for most major industries, and CETRA is the co-organizer of many of these shows (usually in conjunction with the relevant industry association). A local partner can give the best advice on where and how to advertise, but participation in the major trade shows and advertising in the relevant Taiwan trade journals and industry newspapers are important. More information on shows can be obtained from CETRA. Taiwan's major business publications are:

Commercial Times (Daily Newspaper)  
Mr. K. H. Yung, General Manager  
Business Service Department  
6F, 49 Chunghwa Rd., Sec. 1, Taipei  
Tel: 886-2-2308-7111, 2381-3199  
Fax: 886-2-2302-5737

Economic Daily News (Daily Newspaper)  
Mr. Rong Shian Chang, Deputy Director  
Business Services Department  
8F, 557 Chunghsiao E. Rd., Sec. 4, Taipei  
Tel: 886-2-2764-0855  
Fax: 886-2-2764-5344

Business Weekly (Weekly Magazine)  
Ms. Carol Cheng, Manager  
Advertisement Department  
5F, 62 Tunhwa N. Rd., Taipei  
Tel: 886-2-2773-6611 ext. 253  
Fax: 886-2-2711-0656

Commonwealth (Monthly Magazine)  
Ms. Queenie Huang, Deputy Manager  
Advertisement Department  
4F, 87 Sungkiang Rd., Taipei  
Tel: 886-2-2507-8627 ext. 127  
Fax: 886-2-2507-8045

Breakthrough (Monthly Magazine)  
Ms. Ying Chang, Manager  
Advertisement Department  
9F, 156, Fu Hsin N. Road, Taipei  
Tel: 886-2-2715-0471 ext. 22  
Fax: 886-2-2713-5701

### **Essential Tips for Entering the Consumer-Goods Market**

Taiwan is well-known as an industrial dynamo that has been racking up export success for over twenty years. What is less well known is the fact that dynamo has produced a domestic consumer market that is now booming. Recent sharp appreciation of the New Taiwan dollar against U.S. currency, however, may lead to a slow growth in import demand. As noted above, all of the trends in Taiwan point toward a growing, but fragmenting consumer market. While the specifics of this market are unique, the basics are the same as anywhere: find out what the consumers want (or create a product that they will want when they see it), determine what they are willing to pay for it, and research the most efficient means of getting it to them. U.S. firms wanting to enter the market will find a fairly sophisticated network of support firms that can help them carry out these tasks.

As in the industrial sector, finding a good local partner -- be it an agent, distributor, licensee or joint-venture partner -- is essential. Partners will frequently give guidance on how to use the bewildering number of marketing channels. Consumer distribution in Taiwan is dominated by a vast number of small, independent retailers who are served by a network of wholesalers. As the Taiwan market becomes more attractive to investors and consumers become more sophisticated, however, this simple system is breaking down. Larger chains with greater economies-of-scale are some of the new players on the scene changing the face of Taiwan's retail market.

### **Major Types of Modern Retail Stores**

**1. Department Stores:** There are about 50 department stores on Taiwan, concentrated in the large cities. Most of these department stores are run on a Japanese model, i.e., the bulk of the floor space is rented out to concessionaires who pay rent and a fixed percentage -- about 20 percent or so -- of either their gross or net income. Such arrangements help department stores avoid risk, and enables replacement of concessionaires with poor sales. Concessionaires are responsible for decorating and staffing their sales areas. Although the department stores do purchase some merchandise on their own account, most of their sales are through the

concessionaires. To compete against the lower-priced bulk-quantity selections available in hypermarkets, Taiwan department stores carry a broad range of high-quality, upscale, and expensive merchandise. This trend should continue. The introduction of computerized systems to track sales should help department stores through buying and inventory control to alleviate problems associated with the lack of merchandise selection. As Taiwan consumers are very aware of customer service and atmosphere when shopping, department stores will continue to focus on distinguishing themselves through special design, decor, fashion shows, art exhibitions, VIP cards, in-store child care and food courts to attract their target market. Over the next several years, local developers plan to build over 20 shopping malls throughout the island if investors can be identified. At present, four shopping malls, including Core Pacific, Metro Walk, The Mall of Taiwan, and Tai-Mall, are under construction. The establishment of shopping malls will provide a promising new venue for department stores and specialty chain stores seeking to branch out.

**2. Specialty Chain Stores:** A relatively new phenomenon in Taiwan is the specialty chain store. U.S. based chains such as Pearl Vision Center and Toys 'R Us have set up outlets in Taiwan, as have firms from other foreign countries, such as Aoyama Suits and Joshin of Japan. These chain stores, which combine the advantages of central purchasing (nearly all operate their own central warehouses) with product specialization, are gaining market share rapidly.

**3. Hypermarkets and Supermarkets:** In addition to department stores and specialty chain stores, hypermarkets are proliferating in Taiwan. The largest hypermarket chain on the island is Carrefour, with 17 stores. Hypermarket chains such as Price Costco have entered the market. It is estimated that about 40 additional hypermarkets will open in the next three-to-five years. The current supermarket leader is Hong Kong-based Wellcome stores. Despite recent slow sales growth, new supermarkets are being opened by the market leaders in areas where no hypermarkets are located. As a whole, hypermarkets are larger stores carrying a diversified range of products at cut-rate prices. While supermarkets carry a small range of non-food products, hypermarkets carry a much broader range of casual clothing, household consumer goods, automotive accessories, and other products in addition to products normally purchased in a U.S. supermarket.

**4. Convenience Stores:** Now over 4,300 strong islandwide, convenience stores, which offer food products and toiletries 24 hours a day, are major outlets for consumer food items, such as snack foods, beverages, and juices.

**Franchising:** Although relatively new in Taiwan, franchising suits the entrepreneurial spirit of the people on the island. A variety of franchise arrangements exists on the island ranging from equally shared joint venture partnerships to the Pizza Hut model, where stores are managed and operated by a "master franchise" or a regionally based conglomerate. As Taiwan lacks legal expertise on franchise operations, it is crucial that contractual arrangements entered into by U.S. companies stipulate adherence to corporate policy. To gain a foothold in the market and ensure successful performance, franchises must stress management, personnel training, customer service, consistent product quality, and guaranteed reliable distribution channels. Identifying a reliable intermediary capable of enhancing and reinforcing technology transfer is vital to the successful operation of a franchise in Taiwan. In recent years franchise operations have shifted from fast-food restaurants such as McDonalds, Kentucky Fried Chicken, TGIF, Pizza Hut, and Burger King to non-food store services such as Cosmed, Tower Records, JaniKing, and Midas. As the establishment of shopping malls takes off, greater opportunities for franchise operations will abound.

**Direct Marketing:** The direct marketing channel is developing in Taiwan. "Multi-level sales" is becoming more popular as a second job to supplement household income. Recent figures indicate that there are approximately 2.6 million people working for the 670 "multi-level sales" businesses in Taiwan that specialize primarily in nutrition and health foods, cosmetics and skin care products, and household cleaning items. Firms such as Avon, Amway, Nu Skin, and Tupperware have taken advantage of the sales skills of ambitious, well-educated Taiwan women to become very successful. Direct-marketing techniques such as mail-order and Internet marketing are expanding rapidly.

In contrast to the industrial/commercial market Taiwan consumers in many cases prefer to pay more for goods they purchase. Conspicuous consumption is rampant in Taiwan society, and consumers are eager to pay top-dollar for the right brand of watch, car, cognac, or necktie. While consumers are willing to pay more for perceived value, price competition in the marketplace can be brutal. Firms that charge too much for their products in Taiwan can expect to find parallel importers undercutting their efforts. Consumers are extremely brand-conscious, but they are willing to shop around to find the lowest price on their favorite brand. Moreover, when brand is not important, consumers buy on price.

**Selling to the Authorities**

Selling to the Taiwan authorities deserves a special mention, as there are both excellent opportunities and major obstacles for U.S. firms interested in Taiwan public procurement. Most large, technically complex tenders are let by the Central Trust of China (CTC), a quasi-statal organization that has procurement and other responsibilities. Agencies that need to purchase equipment inform CTC of their requirements. CTC announces and administers the tender procedures. Any technical evaluations are performed by the purchasing entity or its surrogates. CTC tenders may be local (limited to firms with a Taiwan office or representative) or international (open to firms outside of Taiwan), but both kinds of tenders are generally conducted fairly and openly. U.S. firms have a well-established record of success in winning CTC-administered tenders.

While CTC handles a large portion of Taiwan authority purchases of advanced equipment, the bulk of Taiwan authority purchases are administered by the purchasing entities themselves. Nearly all of these tenders are open only to firms with a local presence, and it can be difficult for outsiders to obtain advance information on such tenders. CTC itself estimates that they procure less than 10 percent of the authorities' total procurement. In addition to the authorities' extensive infrastructural spending, portions of the economy are still in the hands of authority-owned entities -- telecommunications, and the production of liquor and tobacco products are authority monopolies or near monopolies.

U.S. firms have scored some major successes in public procurement, but also have serious complaints about the system. The contracting entities tend to wield excessive power over the contractor: exorbitant potential liabilities, cumbersome change-order procedures, and expensive bonding requirements are common. Contracting entities tend to view contractors as adversaries, which can make normal business dealings strained. Taiwan bureaucrats tend to believe that the penalty for making no decision is always less than the penalty for making the wrong decision, and this attitude can result in frustrating delays or unreasonable demands on the contractor as bureaucrats seek to take the safest course of action. Conflict of interest laws in Taiwan are not as fully developed as those in the United States. Firms employing relatives of existing officials and/or retired officials have an inside track on Taiwan-authority contracts. However, as Taiwan bids to join the WTO and sign on to the Agreement for Government Procurement, its procurement practices will need to be more transparent and fall in line with international standards.

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<NREC>Taiwan05 Taiwan: Leading Sectors for U.S. Exports &  
Investments <A>=Taiwan

## **V: Leading Sectors for U.S. Exports and Investment**

### **A) Best Prospects for Non-Agricultural Goods and Services**

Est. Dollar Growth

| Rank | Industry Sector                   | in U.S. Exports Over<br>1998-1999* |
|------|-----------------------------------|------------------------------------|
| ---- | -----                             | -----                              |
| 01.  | Process Controls - Industrial     | 83                                 |
| 02.  | Laboratory Scientific Instruments | 72                                 |
| 03.  | Computers/Peripherals             | 62                                 |
| 04.  | Electronic Components             | 50                                 |
| 05.  | Telecommunications Equipment      | 40                                 |
| 06.  | Telecommunications Services       | 40                                 |
| 07.  | Travel/Tourism Services           | 40                                 |
| 08.  | Education/Training                | 40                                 |
| 09.  | Elec. Ind. Prod/Test Equipment    | 30                                 |
| 10.  | Pumps, Valves/Compressors         | 22                                 |
| 11.  | Cosmetics/Toiletries              | 20                                 |
| 12.  | Pollution Control Equipment       | 18                                 |
| 13.  | Household Consumer Goods          | 15                                 |
| 14.  | Computer Software                 | 5                                  |
| 15.  | Medical Equipment                 | 5                                  |
| 16.  | Building Products                 | 5                                  |
| 17.  | Plastic Materials/Resins          | 3                                  |

\* in US\$ millions

#### 01 - Process Controls - Industrial (PCI)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 2,284 | 2,276   | 2,560   |
| B. Total Local Production  | 634   | 632     | 711     |
| C. Total Exports           | 529   | 527     | 593     |
| D. Total Imports           | 2,178 | 2,171   | 2,442   |
| E. Total Imp from the U.S. | 668   | 666     | 749     |

Narrative: Taiwan manufacturers' continuing drive to modernize their production equipment is spurred by the island's labor shortage and rising labor costs as well as by the Taiwan authorities' active promotion of industrial upgrades to improve competitiveness in world markets. Consequently, Taiwan's demand for industrial process controls is growing and is expected to be sustained through tax and R&D incentives for private investment in industrial upgrading and factory automation.

#### 02 - Laboratory Scientific Instruments (LAB)

|                           | 1997  | 1998(e) | 1999(e) |
|---------------------------|-------|---------|---------|
|                           | ----- | -----   | -----   |
| A. Total Market Size      | 2,581 | 2,572   | 2,894   |
| B. Total Local Production | 711   | 709     | 798     |
| C. Total Exports          | 635   | 633     | 712     |

|                            |       |       |       |
|----------------------------|-------|-------|-------|
| D. Total Imports           | 2,505 | 2,496 | 2,808 |
| E. Total Imp from the U.S. | 576   | 574   | 646   |

Narrative: Taiwan has made great efforts to improve its R&D environment. Public R&D expenditure on a wide range of projects has increased yearly. By 2002, more than USD13.8 billion, almost triple 1992's USD3.6 billion R&D budget, will be devoted by the authorities to science and technology development. The authorities have also provided the private sector with attractive R&D tax incentives and other support. Sales of laboratory scientific instruments have risen in the computer, semiconductor and telecommunications sectors. With a number of on-going and proposed high-tech investment projects and increasing production of advanced electronic products/components and telecommunications products, the demand for laboratory scientific instruments will be further stimulated.

### 03 - Computers/Peripherals (CPT)

|                            | 1997   | 1998(e) | 1999(e) |
|----------------------------|--------|---------|---------|
|                            | -----  | -----   | -----   |
| A. Total Market Size       | 3,909  | 4,346   | 4,828   |
| B. Total Local Production  | 19,037 | 22,645  | 26,732  |
| C. Total Exports           | 17,704 | 21,245  | 25,281  |
| D. Total Imports           | 2,576  | 2,937   | 3,378   |
| E. Total Imp from the U.S. | 373    | 411     | 473     |

Narrative: The local market for computers and peripherals offers substantial sales opportunities for U.S. suppliers due to the rapid development and popularity of the Internet, local awareness of the importance of computerization and information automation, and various promotional programs of the Taiwan authorities. Also, local industry, financial institutions, academic research institutes and public schools are actively modernizing their computer and networking systems to enhance production capability, office productivity and management efficiency. Public sector outsourcing and automation projects also provide substantial business opportunities for U.S. firms.

### 04 - Electronic Components (ELC)

|                            | 1997   | 1998(e) | 1999(e) |
|----------------------------|--------|---------|---------|
|                            | -----  | -----   | -----   |
| A. Total Market Size       | 29,058 | 29,500  | 30,200  |
| B. Total Local Production  | 24,849 | 25,200  | 25,600  |
| C. Total Exports           | 12,942 | 13,100  | 13,200  |
| D. Total Imports           | 17,151 | 17,400  | 17,800  |
| E. Total Imp from the U.S. | 3,665  | 3,700   | 3,750   |

Narrative: Taiwan electronic firms are importing leading-edge components -- especially integrated circuits (ICs) -- from foreign suppliers to maintain the competitiveness of their products. The expected expansion in the use of advanced components will lead to increased imports from U.S. companies because of their superior technology. U.S.-made semiconductors are very competitive, ICs in particular. American firms face their stiffest competition from Japanese companies which lead the passive component and display/tube markets. Taiwan-produced components are suitable mainly for low end consumer electronic product applications.

#### 05 - Telecommunications Equipment (TEL)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 1,790 | 1,850   | 2,100   |
| B. Total Local Production  | 2,089 | 2,100   | 2,300   |
| C. Total Exports           | 1,484 | 1,500   | 1,600   |
| D. Total Imports           | 1,185 | 1,250   | 1,400   |
| E. Total Imp from the U.S. | 271   | 290     | 330     |

Narrative: Through a series of network-modernization projects undertaken between 1991-1997, Taiwan's telecommunication infrastructure has been upgraded significantly, creating substantial business opportunities for U.S. suppliers of telecommunications equipment, particularly mobile telephone handsets. Tenders for satellite-network services are scheduled to be announced in May 1998. Tenders for local, domestic long-distance, and international telephone services are scheduled to be announced by December 1998. Tenders for satellite-and-wireline-network services will offer substantial business opportunities for interested U.S. equipment suppliers.

#### 06. Telecommunications services (TES)

|                                     | 1997  | 1998(e) | 1999(e) |
|-------------------------------------|-------|---------|---------|
|                                     | ----- | -----   | -----   |
| A. Total Sales                      | 288   | 390     | 526     |
| B. Domestic Sales by<br>Local Firms | 173   | 235     | 317     |
| C. Sales by Foreign Firms           | 115   | 155     | 209     |
| D. Sales by U.S. Firms              | 104   | 140     | 190     |

Narrative: Taiwan authorities are privatizing both basic telecommunication services and value-added network services. Value-added network-service providers are allowed up to 100 percent foreign investment and have widely defined business coverage, including high-speed broadband network services and virtual private network services. In addition, Taiwan is

liberalizing banking and other aspects of its financial industry, as well as promoting electronic commerce, commercial automation, and Internet applications. U.S. suppliers have an excellent opportunity to profit from continued telecommunications liberalization and commercial automation. Due to superior high-speed broadband value-added network services, the U.S. should be able to maintain its market position.

#### 07 - Travel/Tourism Services (TRA)

|                                     | 1997   | 1998(e) | 1999(e) |
|-------------------------------------|--------|---------|---------|
|                                     | -----  | -----   | -----   |
| A. Total Sales                      | 12,281 | 12,900  | 13,530  |
| B. Domestic Sales by<br>Local Firms | 110    | 120     | 130     |
| C. Overseas Sales by<br>Local Firms | 12,171 | 12,780  | 13,400  |
| D. Sales by U.S. Firms              | 1,558  | 1,600   | 1,640   |

Narrative: Taiwan's overseas travel is growing steadily with a yearly increase of about 10 percent. The United States remains the most popular destination outside of Asia, with 588,916 visitors in 1997 (an increase of 1.6 percent from 1996), according to Taiwan statistics. The long-standing commercial and family ties between the United States and Taiwan will continue to generate repeat visits between the two destinations. Many airlines increase flights every summer to meet peak-season demand. Fierce competition has forced Taiwan travel agencies to offer more attractive package tours at competitive prices. Twelve-day tours to the West Coast, including two nights in Hawaii, continue to be the most popular tours.

#### 08 - Education/Training (EDS)

|                         | 1997   | 1998(e) | 1999(e) |
|-------------------------|--------|---------|---------|
|                         | -----  | -----   | -----   |
| A. Total Expenditures   | 17,729 | 18,825  | 20,000  |
| B. Spending at Home     | 16,500 | 17,550  | 18,670  |
| C. Expenditures Abroad  | 1,220  | 1,275   | 1,330   |
| D. Spending in the U.S. | 550    | 520     | 550     |

Narrative: In 1989, Taiwan relaxed its "Rules Governing Advanced Study Abroad" and reopened overseas study to senior high school graduates. Due to rising family incomes, the number of students pursuing study abroad on a self-financed basis has been on the increase in recent years. According to Taiwan statistics, 40-45 percent of students pursuing study abroad have gone to the United States. In recent years, short-

term language study and overseas summer camp have been in great demand. In recognition of this growing market and the value placed on English-language skills in Taiwan, the U.K., Canada and Australia have stepped up marketing to attract students.

#### **09 - Electronics Industry Prod./Test Equipment (EIP)**

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 2,200 | 2,260   | 2,390   |
| B. Total Local Production  | 960   | 1,000   | 1,050   |
| C. Total Exports           | 410   | 440     | 460     |
| D. Total Imports           | 1,650 | 1,700   | 1,800   |
| E. Total Imp from the U.S. | 460   | 470     | 500     |

Narrative: With several on-going and proposed high-tech investment projects and growing production of advanced electronic products and components, sales prospects for advanced EIPT equipment are bright. Most advanced EIPT equipment must be imported to meet domestic demand, since Taiwan-produced equipment is still limited to simple, low-value-added products. The United States leads the market for semiconductor EIPT equipment, while Japan controls the EIPT markets in finished electronic products and passive components. Japanese EIPT firms are taking a very aggressive approach to the fast-growing and lucrative semiconductor market. Nevertheless, U.S. EIPT suppliers are expected to continue as a major source of specialized EIPT equipment for the industrial/commercial-electronics and active-components industries due to their excellent performance, high reliability, and durability.

#### **10 - Pumps, Valves/Compressors (PVC)**

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 1,294 | 1,238   | 1,362   |
| B. Total Local Production  | 1,687 | 1,608   | 1,769   |
| C. Total Exports           | 1,406 | 1,335   | 1,469   |
| D. Total Imports           | 1,013 | 965     | 1,062   |
| E. Total Imp from the U.S. | 229   | 218     | 240     |

Narrative: Continued expansion of such industries as chemical materials, chemical products, and textiles is bolstering the market growth for pumps, valves and compressors. Proposed capital investment in the three industries is over USD15 billion before the year 2000. Foreign firms are expected to gain the largest share in this growing sector since local competition remains only in the less complex and small-medium-sized product areas. Aggressive marketing efforts are

essential for American suppliers to improve their market position in Taiwan.

#### 11 - Cosmetics/Toiletries (COS)

|                            | 1997<br>----- | 1998(e)<br>----- | 1999(e)<br>----- |
|----------------------------|---------------|------------------|------------------|
| A. Total Market Size       | 677           | 758              | 836              |
| B. Total Local Production  | 380           | 423              | 456              |
| C. Total Exports           | 151           | 166              | 183              |
| D. Total Imports           | 448           | 502              | 562              |
| E. Total Imp from the U.S. | 145           | 162              | 182              |

Narrative: Increases in living standards and national income, along with changes in consumption patterns, have given rise to an expanding market for cosmetics and toiletries. This market has expanded approximately 12 percent per annum from 1996. Foreign firms enjoy a strong position. The major international cosmetic and toiletry groups have introduced their brands into Taiwan, and some of them have built production facilities to support growing sales. As the market continues to expand, there will be increased demand for high-quality, brand-name imported products. This providing excellent opportunities for U.S. suppliers.

#### 12 - Pollution Control Equipment (POL)

|                            | 1997<br>----- | 1998(e)<br>----- | 1999(e)<br>----- |
|----------------------------|---------------|------------------|------------------|
| A. Total Market Size       | 629           | 679              | 712              |
| B. Total Local Production  | 195           | 191              | 194              |
| C. Total Exports           | 175           | 166              | 161              |
| D. Total Imports           | 824           | 870              | 906              |
| E. Total Imp from the U.S. | 186           | 202              | 220              |

Narrative: The market for pollution-control equipment in Taiwan is suffering from the same problem as in the rest of the region, namely that environmental protection is considered a luxury. In fact, Taiwan authorities are under pressure to limit impediments to growth (such as tightened environmental standards) so that industry can weather the current regional crisis. Water discharge standards have been relaxed, and other laws are being poorly implemented in a bid by the authorities to assist local industries. However, despite the current situation, market watchers still expect this sector to grow five to seven percent in 1998 and 1999, with many product areas (such as equipment to control air pollution, solid waste, and hazardous waste, as well as recycling technologies) experiencing growth. Best prospects for Taiwan will be high-technology pollution-control equipment and cleaner production

technologies for the semiconductor, petrochemical, pulp and paper, and electroplating industries.

### 13 - Household Consumer Goods (HCG)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 3,795 | 3,885   | 3,980   |
| B. Total Local Production  | 7,000 | 7,160   | 7,320   |
| C. Total Exports           | 4,397 | 4,500   | 4,600   |
| D. Total Imports           | 1,192 | 1,225   | 1,260   |
| E. Total Imp from the U.S. | 169   | 175     | 180     |

Narrative: Consumer purchasing power continues to rise dramatically. Distribution systems are becoming more efficient with the introduction of large stores, such as hypermarkets. American suppliers have gained brand-name recognition and established strong service networks. In this sector, sales of small household appliances are set to grow at the highest rate, and sales growth for large appliances is expected to be brisk in rural areas, especially in the south. In the north, the market for home furnishings is improving as consumers upgrade and replace household items.

### 14 - Computer Software (CSF)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 706   | 875     | 1,060   |
| B. Total Local Production  | 769   | 961     | 1,174   |
| C. Total Exports           | 147   | 184     | 225     |
| D. Total Imports           | 85    | 98      | 111     |
| E. Total Imp from the U.S. | 35    | 40      | 45      |

Narrative: The Taiwan software industry is in its infancy, thus the market relies heavily on imported software. American software vendors dominate, and will continue to dominate the Taiwan market in coming years. High-demand U.S.-origin software includes operation systems, Internet/networking software, suite software, system tools for PCS platform/operation systems and software tools for workstations and above workstation platforms. Strong demand for personal computer installations by households and private businesses is propelling the market expansion of PC-based software products. It is important for U.S. suppliers to note that product localization for Chinese language users is essential in this market.

### 15 - Medical Equipment (MED)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 529   | 544     | 561     |
| B. Total Local Production  | 255   | 263     | 271     |
| C. Total Exports           | 112   | 115     | 119     |
| D. Total Imports           | 385   | 397     | 409     |
| E. Total Imp from the U.S. | 164   | 167     | 172     |

Narrative: Recent rapid changes in social and economic development and disease patterns have not only expanded the scope of health care but also made people pay more attention to their own health. Due to limited domestic production, most advanced medical equipment must be imported. Opportunities for U.S. suppliers of high-end medical devices are good and will likely remain so through the next decade. However, the low-end products on which domestic manufacturers focus, face strong competition

#### 16 - Building Products (BLD)

|                            | 1997  | 1998(e) | 1999(e) |
|----------------------------|-------|---------|---------|
|                            | ----- | -----   | -----   |
| A. Total Market Size       | 9,219 | 8,121   | 8,283   |
| B. Total Local Production  | 8,433 | 7,429   | 7,577   |
| C. Total Exports           | 985   | 868     | 885     |
| D. Total Imports           | 1,771 | 1,560   | 1,591   |
| E. Total Imp from the U.S. | 249   | 219     | 224     |

Narrative: Taiwan's market for building products is expected to grow at two percent per annum for the next few years. Sand and crushed stone have experienced the largest growth within the sector at 10 percent annually, boosted by numerous large-scale infrastructure projects that are now under construction. In 1997, total sales of building products in Taiwan were approximately USD9.2 billion, of which about USD 1.8 billion were imports. U.S. suppliers dominate with approximately 14 percent of the import market followed by Japan and Germany, which enjoy 11 percent and 3.4 percent of the import market respectively.

#### 17 - Plastics Materials/Resins (PMR)

|                           | 1997  | 1998(e) | 1999(e) |
|---------------------------|-------|---------|---------|
|                           | ----- | -----   | -----   |
| A. Total Market Size      | 6,626 | 6,591   | 6,600   |
| B. Total Local Production | 7,600 | 7,550   | 7,600   |
| C. Total Exports          | 3,433 | 3,400   | 3,450   |
| D. Total Imports          | 2,459 | 2,439   | 2,460   |

E. Total Imp from the U.S.      544                      542                      545

Narrative: The growth of the Taiwan economy has resulted in increased demand for plastic products. Plastic materials and resins account for 39 percent of the total demand in the chemical industry. Imports of plastic materials and resins still play an important role in the Taiwan chemical industry, especially composite and engineering materials. In recent years, there has been rapid and growing demand for high-tech and high value-added plastic materials and resins for use in the local electronic, communication, automobile, textile, package, construction, medical supplies, and sporting equipment industries. Domestic production is strapped by insufficient local production, a shortage of labor and land resources, environmental protests against new petrochemical plant projects, and lack of R&D and advanced technology.

Note: The above statistics are unofficial estimates

Exchanged rates used:

| Year    | Imports | Exports | Production |
|---------|---------|---------|------------|
| -----   | -----   | -----   | -----      |
| 1997    | 28.60   | 28.50   | 28.55      |
| 1998(e) | 33.00   | 33.00   | 33.00      |
| 1999(e) | 33.00   | 33.00   | 33.00      |

## **B) BEST PROSPECTS FOR AGRICULTURAL EXPORTS TO TAIWAN**

### **1. - Poultry Meat**

Poultry meat consumption on Taiwan is expected to rise as it is increasingly used as a pork substitute following the foot-and-mouth disease (FMD) outbreak in March 1997. Some food manufacturers have used U.S. turkey meat to replace pork in preparing processed-meat products such as dumplings, particularly for the export market in Japan. An annual import quota of 10,000 metric tons (MT) of U.S. chicken meat was established as part of the Bilateral Market Access Agreement in February 1998. The quota will expand upon Taiwan's accession to the WTO. Average(94-96) Imports from the United States: US\$ 5 million

### **2. Beef**

Over 90% of Taiwan's beef demand is supplied by imports. Australia dominates the market for less-expensive cuts while the market for high-quality grain-fed beef is virtually all supplied by the United States. Imports of U.S. beef increased

remarkably in past years and will continue to grow in the coming years. Taiwan's 1997 beef consumption increased significantly after the outbreak of foot-and-mouth disease (FMD) in March, 1997. Almost every supermarket or hypermart now carries U.S. beef which is well accepted by consumers. An annual import quota of 5,000 MT of U.S. beef offals was established as part of the Bilateral Market Access Agreement in February 1998. The quota will expand upon Taiwan's accession to the WTO. Average(94-96) Imports from the United States: US \$52.00 million

### **3. Pork**

In the past decade, pork production has been Taiwan's most valuable and profitable agricultural enterprise, with about forty percent of Taiwan's hogs being slaughtered for export, virtually all for the Japan market. The outbreak of foot-and-mouth disease (FMD) has reshaped Taiwan's pig industry and the supply-demand balance of meat. Pork exports were halted due to the outbreak of the epidemic in March 1997 and local pork production decreased greatly. In 1996, Taiwan imported 11,410 mt of pork, 88% of which was from the United States and 12% from Canada, virtually all for the food processing sector. Taiwan has established an annual import quota of 7,500 MT of U.S. pork offal and 5,000 MT of U.S. pork bellies as part of the Bilateral Market Access Agreement in February 1998, with the quota to expand upon Taiwan's accession to the WTO. Reportedly, skin-on pork belly has high potential in the Taiwan market. Average(96) Imports from the United States: US \$17 million

### **4. Lobster**

Nearly 99% of all lobsters consumed on Taiwan are imported. The United States accounted for 16% of Taiwan's lobster imports. As a result of rising per-capita incomes and higher living standards, consumption of lobster is expected to grow over the next few years. U.S. seafood is perceived by Taiwan consumers as high quality. Promotion activities should focus on establishing consumers' awareness of U.S.-origin lobsters. Average(94-96) Imports from the United States: US \$5 million

### **5. Salmon**

Taiwan's total seafood imports by value in 1996 were US\$360 million, up from US\$356 million in 1995. This will likely increase in the coming years as Taiwan's fishery production further declines, incomes expand, and tastes diversify. Taiwan does not catch or produce salmon, thus 100% is imported. Import demand for salmon is expected to continue to grow

strongly over the next few years. Average(94-96) Imports from the United States: US \$1.00 million

## **6. Pet Food**

Due to increasing income and overall change in lifestyle, Taiwan import demands for pet food in 1996 surged 184% to \$45 million from that of 1992's \$24 million. The annual market growth rate is projected at 2%, but the U.S. market share dropped by 8% from 1992's 49%, primarily due to competition of canned dog food from Australia. The United States exports primarily dried dog food. Local pet-food patterns are changing, and with it, the so preference for pets. Average(94-96) Imports from the United States: US \$18.6 million

## **7. Sunflower Oil**

Spurred on by rising incomes and health consciousness of local consumers, Taiwan import demand for sunflower oil is projected to increase by 2% a year through the year 2002, to reach nearly \$20 million by that year, up from the current \$16.7 million. The U.S. market share was 44% in 1996, up from 10% in 1992. On June 19, 1998, the tariff on crude sun oil was reduced to 21% from the previous 24%, and 15% on refined sun oil down from 24%. Average(96) Imports from the United States: US \$5.5 million

## **8. Apples**

Taiwan is the United States' largest off-shore market for fresh apple exports, buying an average of US\$70 million during 1994-96 and apples continue to be Taiwan's number one imported fruit. The United States dominates the import market with an 85% share by volume and a 75% share by value. Although considered a mature market, the recent introduction of new varieties such as Fuji and Gala have shown that the market still has growth potential. Average(94-96) Imports from the United States: US\$ 69.7 million

## **9. Oranges**

Taiwan import demand for oranges is projected to rise by 9% a year through the year 2002, reaching \$16.4 million by that year, up from a current \$9 million. U.S. oranges enjoyed an explosive market growth of 612% in 1992, and currently hold 97% market share of all imported oranges. However, in 1996, imports of U.S. oranges fell 34% due mainly to local competition. With Taiwan's anticipated WTO accession, tariff rates, which are currently set at 40% during peak seasons, are

expected to fall, thus providing US oranges more advantage in price competitions against local products.  
Average(94-96) Imports from the United States: US\$ 9.5 million

## **10. Grapes**

Taiwan continues to be one of the California grape industry's most important export markets. Annual exports to Taiwan have exceeded 10,000 metric tons in each of the last 11 years and in 1996 reached 16,600 MT, valued at US\$17 million. Fresh grapes are an important part of the Taiwan consumer's fresh-fruit diet, reported to be one of the World's highest. Per capita consumption of fresh grapes is estimated at just under 9 lbs. Currently, California competes only with local production, as grape imports from countries other than the United States are prohibited. However upon Taiwan's accession to the WTO, foreign competition is expected primarily from Chile and Australia.  
Average(94-96) Imports from the United States: US \$15.3 million

## **11. Grapefruit**

Taiwan import demand for grapefruits is projected to rise by 10% a year through the year 2002, reaching \$19 million by that year, up from \$8.6 million. U.S. grapefruits enjoyed explosive market growth of 1026% in 1992, and currently hold close to 98% market share of all imports. In the 3 years following 1993, annual import growth of U.S. grapefruits maintained an average of only 15%. With Taiwan's anticipated WTO accession, tariff rates, which are currently set at 40% during domestic sales seasons, are expected to fall, thus providing US grapefruits more price advantages against local products.  
Average(94-96) Imports from the United States: US \$10.5 million

## **12. Peaches and Plums**

Due to depressed local production of fruit, and spurred on by rising incomes, an expanding middle class and growing tourism, Taiwan import demand for peaches, plums and nectarines is projected to rise by 7% a year through the 2002, reaching \$35 million by that year, up from a current \$32 million. The U.S. market share for these fruits was nearly 100% in 1996.  
Average(94-96) Imports from the United States: US \$116 million

## **13. Fruit Juices**

Taiwan's thirst for fruit juices continues to climb, as consumers are turning to products that are perceived as natural and healthy, especially for children. Many suppliers vie for this market, but the U.S. maintains the largest market share

(20%, up from 15% in 1992), based on the popularity of apple, orange, grape, and grapefruit juice imports, as well as innovative mixed-juice products. Taiwan consumers are projected to continue increased juice consumption at about 5%.  
Average(94-96) Imports from the United States: US \$27 million

#### **14. Broccoli**

Based on 1996 data, fresh broccoli was positioned as the second most popular imported vegetable on Taiwan. From 1992 to 1996, the imported broccoli market grew an average of 176% annually. The United States was the leading supplier, providing 84% of the total broccoli imports on Taiwan in 1996. Prompted by concerns about the overuse of pesticides on locally produced vegetables, imported vegetables are growing in demand. The fresh broccoli import market has good potential due to its suitability for use in Chinese cuisine.  
Average(94-96) Imports from the United States: US \$1.8 million

#### **15. Lettuce**

Based on 1996 data, lettuce was positioned as the third most popular imported vegetable on Taiwan. From 1992 to 1996, the lettuce import market grew an average 30% per year. The United States was the leading supplier providing 92% of the total lettuce imported on Taiwan in 1996. However, lettuce is not a common vegetable in the Chinese diet due to the unfamiliarity with eating vegetables uncooked. Currently, lettuce is often served in western-style restaurants, but is not popular in family meals. Educational information, including the provision nutritional-value and salad-preparation information at the consumer level, will increase to enlarge lettuce consumption. Since lettuce has short shelf life, local importers/distributors are discouraged from importing fresh lettuce due to risk of spoilage caused by improper handling. Fresh-produce-handling education at the trade level will help overcome these problems.  
Average(94-96) Imports from the United States: US \$2.1 million

#### **16. Wine**

1997 was a remarkable year in Taiwan wine history in terms of market growth, and the total value of imported wine reached US\$169.4 million. 1997's one-year import value doubled previous five-year (1992 - 1996)'s combined value of US\$84 million. The "wine boom" attracted more than 6,000 entrepreneurs who became licensed wine importers by the end of 1997. Local traders predict that the market growth rate will slow down, and an average 20% annual growth is expected over the next few years.

In terms of volume, U.S. wine held the position as market leader up until 1996; the U.S. market share declined from 47%(1994) to 20%(1997). But U.S. wine exports to Taiwan still increased by 140% in 1997 compared to 1996. Due to French wine's "premium" image and the Taiwan consumer's unfamiliarity with proper retail prices, importers prefer to import French wine with high profit margins. Although U.S. wine does not attract as many importers as French wine, most companies importing wine from U.S. are considered to be dependable wine importers.

Average(94-96) Imports from the United States: US \$5.4 million

## **17. Chocolate and Other Candy**

Taiwan's candy tariffs began to decline in 1987, spurring steady growth in the market. Tariffs on confectionary now range between 15-32%. Taiwan import demand for confectionary are projected to increase by 4% a year through the year 2002, reaching \$99.8 million, up from \$78 million currently. It is expected that with Taiwan's accession to the WTO, tariff rates, which currently remain a factor contributing to the relative disadvantage of the pricing of US products, will decline.

Average(94-96) Imports from the United States: US \$12.4 million

## **18. Snack Foods**

As a result of rising incomes and growing demand for more quality and variety in food products, Taiwan import demand for snack foods like potato chips is projected to rise by 2% a year through the year 2002, reaching \$15.8 million by that year, up from \$14 million currently. The U.S. currently holds a dominant market share of all imported potato chips.

Western-style snacks including potato chips, corn chips, cheese balls, and microwaveable popcorn, are quite popular on Taiwan. The main competition is currently from domestic manufacturers. The market is increasingly driven by fads and fashion. To remain competitive, suppliers must keep up with market trends in packaging.

Average(94-96) Imports from the United States: US \$12 million

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<NREC>Taiwan06 Taiwan: Trade Regulations & Standards <A>=Taiwan

## **VI. Trade Regulations and Standards**

### **Tariffs/Non-Tariff Barriers and Import Taxes**

Taiwan reduced tariffs on 758 types of imports covering 514 industrial and 244 agricultural products in August 1995. Although many agricultural tariffs were lowered, U.S. exporters nevertheless consider many of the reduced tariffs, such as other agricultural tariffs, to be high enough to create a significant barrier to their exports. Some examples include: fresh fruits(40-50 percent tariff), processed vegetables including vegetable juices (35-40 percent), and sunflower seeds and oil(21-24 percent. Many of these tariffs however will be lowered in the context of the WTO bilateral agreement.

In addition, U.S. agricultural exporters continue to report instances in which the customs authorities on Taiwan have reclassified import items to lines with higher tariffs, often after years of trade history. This practice is most prominent in agricultural commodities, such as mixed feed stuffs, tallow and grease, and intermediate ingredients. Such a practice negates some of Taiwan's tariff cuts.

To promote trade liberalization in accordance with the Asia Pacific Economic Cooperation (APEC) Bogor Declaration, in October 1996, Taiwan authorities proposed legislation that would cut tariffs on 1,130 items. On May 28, 1998, Taiwan's Legislative Yuan (LY) approved the tariff reduction bill. The tariff cuts are scheduled to go into effect in July 1998. The tariff cuts include many items of concern to the United States, such as buses, home appliances, soda ash, agricultural products, fruits and vegetables, and camera film. The bill also contains tariff reductions on beer, wine, and tobacco products. With substantial tariff reductions, U.S. companies will benefit from increased potential markets.

Under the Information Technology Agreement (ITA), Taiwan has also agreed to phase out tariffs on information-technology products. The first tranche of ITA-related cuts was implemented on a temporary basis on July 1, 1997, under an Administrative Order. A second tranche went into effect on January 1, 1998. While the vast majority of tariffs on these products will be phased out by the year 2000, for some products reductions will not be completed until 2002. The Administrative Order will have to be renewed annually until Taiwan enacts permanent reductions in connection with accession to the WTO. On May 28, the Legislative Yuan also approved another tariff reduction bill that makes permanent temporary cuts carried out under administrative action since 1997 on 245 high-tech items covered by commitments under the ITA.

In addition to the import duty, importers must also pay a 0.4 percent harbor construction fee and a 5 percent value-added tax. Goods entering Taiwan by air freight or parcel post are

exempt from harbor fees. A commodity tax must be paid if an imported product falls into one of seven commodity categories. The rates range from 2-60 percent. This tax is assessed on the C.I.F. and duty-paid value of affected imports. The seven commodity categories include rubber tires, cement, beverages, oil and gas, electric appliances, flat glass, and automotive products. Taiwan is in the process of revising its commodity tax law. The United States is seeking, in the context of bilateral WTO negotiations, to ensure that these changes are consistent with WTO rules.

### **Customs Valuation**

Taiwan revised its Customs Law in July 1986 in order to implement procedures consistent with the "Agreement on Implementation of Article VII of the GATT." This article refers to the valuation of all imports for the assessment of duties. The Taiwan authorities have stated that upon its accession to WTO, it will fully adhere to the Customs Valuation Code.

The dutiable value of an import into Taiwan is defined as its cost, insurance, freight (C.I.F.) value. Taiwan generally assesses the ad valorem duty on the invoice price as stated on the import document. If customs officials consider an invoice's transaction value to be too low, they will value the item based on the actual transaction price of the same or similar goods sold to Taiwan at approximately the same time of exporting the said products.

### **Import Licensing and Other Restrictions**

Taiwan continues to maintain an import-licensing system, but it has greatly reduced the number of items requiring these licenses. The share of import categories exempt from control was increased from 34 to 85 percent with the introduction of a "negative list" in July 1994 and its expansion in 1995. At present, there are 878 categories that require approval from the relevant authorities in order to clear customs. Another 287 require only pro-forma notarization from local commercial banks or import permits from the Board of Foreign Trade (BOFT).

Taiwan restricts the importation of 264 items, which may not be imported without special permission from the Taiwan authorities. Included in this category are agricultural products that can only be imported pending the agricultural authorities' prior approval. This amounts to a de facto ban on imports of many of these products since import approval is normally not granted. Quarantine requirements also block imports of certain plant and animal products. Items under de

facto bans include chicken (fresh and frozen), certain cuts of pork, peanuts, and adzuki beans. Rice and rice products are considered to be exceptional items requiring approval from Taiwan's provincial food bureau. Imports of animal offal (beef, pork, and poultry), sugar, and selected dairy products are banned outright. Taiwan has agreed to remove these bans upon accession to the WTO.

In addition to these restrictions on agricultural items, the Council of Agriculture also implements what amounts to a de facto ban on the importation of fishing boats (including sport fishing boats), which has frustrated the export efforts of several U.S. firms. For some products where licenses are required, the importer may be required first to obtain the authorization of numerous agencies, such as Taiwan's Department of Health for medical equipment, the Council of Agriculture for certain fertilizers, and the Environmental Protection Administration for waste and scrap copper, aluminum, lead, and zinc. Often these additional approvals and documentary requirements add to the administrative burdens of importing the products into Taiwan and cause long delays, creating a defacto ban.

Other than WTO accession issues, medical devices and pharmaceuticals have been among the most contentious trade issues between the United States and Taiwan over the last two years. Taiwan has declared both the medical-device and pharmaceutical sectors as areas warranting priority for development. Measures have been introduced by Taiwan agencies to promote growth and technological development in these areas while discouraging imports.

**Medical Devices:** The Taiwan market has been important for the U.S. medical-device industry. At present, the U.S. exports about US\$150 million worth of medical devices to Taiwan and has a 40 percent market share. Discriminatory practices now threaten about two-thirds of U.S. exports, and dim prospects for substantial growth. Because Taiwan maintains a national health insurance system with universal coverage, the system acts effectively as the exclusive buyer for all medical-device products used in Taiwan. As the sole effective buyer, Taiwan authorities can (and do) set prices for all medical devices.

On September 30, 1996, the United States and Taiwan concluded an agreement on medical-device pricing with specific measures to be achieved regarding national treatment, transparency, openness, predictability, and functionality. Taiwan has thus far not taken adequate measures to establish differentiated pricing for devices based on the relative value to technology (the "functionality" measure). Significant differences exist

between the functionality of imported products and those made in Taiwan.

In December 1997, Taiwan's National Health Insurance Bureau (NHIB) introduced a diagnostic-related group-case payment system for medical device products. This system assigns "generic" pricing, a system counter to the principle of creating value-based pricing for devices as stated in the agreement. This unexpected change in reimbursement systems was accompanied by drastic price cuts for foreign-manufactured orthopedic products to levels nearly identical to those for domestically produced orthopedic products, thus eliminating the distinction between products based on quality and relative value. The change to generic rather than quality pricing for medical devices threatens to reduce dramatically the market for advanced foreign medical- device products. The U.S. is requesting that Taiwan adopt special measures that will recognize the value of the technology embodied in U.S. and other foreign medical devices, especially in orthopedic knee and hip implants.

Pharmaceuticals: The U.S. pharmaceutical industry faces price controls similar to those encountered by U.S. medical-device manufacturers. Under Taiwan's pricing system, producers of "generic" pharmaceuticals are reimbursed at a set percentage of the price set for a proprietary drug. This system discriminates against patented and brand-name pharmaceuticals that are produced in Taiwan. Since Taiwan producers do not have to pay for research, development, and testing, they can offer "unofficial" discounts on their products. Although Taiwan authorities have addressed the situations in which generic producers received the same price as producers of patented pharmaceuticals, price differentials between products remain narrow.

Taiwan's Department of Health (DOH) requires registration materials that are duplicative and onerous. The Department will also not grant foreign pharmaceutical companies regulatory approval to manufacture or market more than one brand of a drug with the same active ingredient and dosage form. Lastly, for all but new chemical entities, pharmaceutical companies are still not allowed to import drugs that are produced using multi-site sourcing. Regulatory burdens imposed by the DOH on pharmaceuticals, however, have been significantly reduced over the last year.

### **Export Controls**

Of the total 10,167 items in Taiwan's current tariff schedule (HS), 8,877 or 87.31 percent may be exported. In the past,

most exports required export permits. As of May, 1998, 1,290 items or 12.69 percent require export licenses. Licenses are required for the following reasons:

- Implementation of quantitative-restriction arrangements on export of textile and garment products to the U.S., Canada, Brazil, and the European Communities (EC).
- National security: i.e., the security of supply of certain daily necessities and important industrial materials, including rice, salt, coal, and uranium.
- Implementation of trade and social policies; i.e., the export of munitions and armaments, high-tech equipment and supplies, and narcotics.
- Protection of intellectual properties and endangered species of wild fauna and flora.
- Concern over hygiene and health of certain products.

#### **Import/Export Documentation**

A foreign supplier's pro forma invoice (quotation) is required for application of an import permit and the establishment of letter of credit. Documents required for shipments to, or from Taiwan include the commercial invoice, bill of lading or airway bill, packing list, and certificate of origin. Shipments of agricultural products, plants, and animals to Taiwan may require certificates of inspection or quarantine issued in the country of origin and are subject to inspection and quarantine upon importation into Taiwan.

The commercial invoice must show the import license number; F.O.B., C&F, or C.I.F. value; insurance; freight; and discounts or commissions, if any. The commodity description and value shown on the commercial invoice must agree with those on the import license. No requirements exist as to the form of a commercial invoice or a bill of lading. In addition to the information generally included in a standard bill of lading, all marks and case numbers appearing on packages must be shown. Customs does not permit the grouping of marks or numbers on a shipment of mixed commodities.

#### **Temporary Entry**

Taiwan is not a member of the ATA Carnet system due to the lack of diplomatic relations with ATA Carnet countries. However, Taiwan has signed bilateral agreements with 22 nations, including 15 EU countries, Switzerland, South Africa,

Singapore, Korea, New Zealand, Australia and Canada to implement ATA Carnet. These agreements grant temporary customs exemptions for a wide range of products such as test instruments, scientific equipment, exhibition goods, etc. which are brought into Taiwan for sales promotion and exhibition purposes on a temporary basis. Upon conclusion of the event, items must be shipped out of Taiwan within a year to avoid imposition of harbor taxes and tariffs.

A similar agreement with the United States to implement the AIT Carnet is expected to be signed in the last half of 1998. Like the ATA Carnet, AIT Carnets will be valid for up to one year and allow U.S. exporters to avoid duties and taxes when entering Taiwan. Operational details remain to be finalized, though it is anticipated that the first Carnets will be issued by the last half of 1998. The AIT Carnets issued exclusively for Taiwan will be very similar to the traditional ATA Carnets, but must be applied for separately (due to the U.S.'s lack of diplomatic recognition of Taiwan). For example, if traveling to both Taiwan and China, one would have to apply for an ATA and AIT Carnet. Questions regarding the process and further developments of the AIT Carnet should be directed to the U.S. Council for International Business at 1212 Avenue of the Americas, New York, N.Y. 10036-1689, Tel: 212-354-4480, Fax: 212-575-0327

### **Labeling, Marking requirements**

Taiwan labeling regulations require that the net contents of packaged goods shall be shown in metric units. Dual labeling in metric and nonmetric units is permitted. Measuring instruments calibrated in nonmetric units must show metric equivalents. On March 7, 1995, Taiwan tightened regulations on Chinese labeling for food items, expanding coverage to all food products sold at retail (but allowing exemptions for some food-service items) and requiring the labels to be affixed prior to customs clearance. Required information includes name and address of manufacturer or importer, date of production and/or expiry date, and list of ingredients. Taiwan's Consumer Protection Law requires that all imported goods have Chinese-language labels and instructions which shall be at least as comprehensive as the language-of-origin labels and accompanying instructions.

All imported cargo must bear a mark of distinctive design, a set of three or more letters, or a combination of design and letters indelibly stenciled, stamped, or burned on the packing or on the cargo itself. For cargo packed in cases, boxes, crates, casks, drums, or cylinders, each container should bear a separate number that cannot be repeated for two years. Bags

or bales also must bear a nonrecurring number, date, or set of three or more letters. In addition, each package of a consignment must be numbered consecutively. Numbering is not essential for large lots of cargo except when packaged in cases, boxes, or crates, provided that each package of the consignment contains cargo of identical weight.

### **Prohibited Imports**

Narcotics are barred from entry into Taiwan. Arms, munitions, and several important agricultural products, including rice, animal offal, sugar, and selected dairy products, are banned outright. In addition, Taiwan maintains a de facto ban on the importation of HUMMER pickup trucks and fishing boats (including sport fishing boats), a fact that has frustrated the efforts of several U.S. firms.

### **Standards, Testing, Labeling, and Certification**

"Chinese National Standards (CNS)", written and published by the National Bureau of Standards of the Ministry of Economic Affairs, list relevant standards requirements for imported products into Taiwan. CNS are similar to or in conformity with international standards such as ISO and IEC. The Bureau of Commodity Inspection and Quarantine (BCIQ) carries out necessary commodity- inspection measures according to the Commodity Inspection Law. The purpose of this inspection is to promote the quality of commodities, safeguard product safety, and protect consumer interests. The method of commodity inspections generally conforms to international standards. However, industrial products (such as air-conditioning and refrigeration equipment) are required to undergo testing to verify energy efficiency and capacity before clearing customs. Recent efforts to enforce compliance of some imported products with Taiwan standards have resulted in long delays at customs for some U.S. products entering the market, as testing facilities are inadequate and testing procedures slow and inefficient.

The most prevalent restrictive standards and testing requirements exist for agricultural goods. Taiwan's lack of an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables sometimes impedes trade in these products. Imported agricultural goods are routinely tested while domestic products are not as closely monitored or tested. Similarly, stringent microbiological and chemical-residue testing of imported food products such as turkey, pork, and game meat limits imports. On a related issue, Taiwan often fails to notify its trading partners of changes in sanitary and phytosanitary (SPS) import regulations, despite pledges to

abide by international norms as embodied in the WTO Agreement on Application of SPS Measures. Standards on preservatives for soft drinks preclude the import of certain beverages.

Registration procedures for imports of pharmaceuticals, medical devices, and cosmetics are both complex and time consuming, and have been the subject of a number of complaints by U.S. firms. U.S. medical device manufacturers contend that Taiwan's Department of Health (DOH) product-registration procedures are particularly onerous because the DOH does not use quality standards such as Good Medical Practice or ISO 9000 to evaluate applications. Foreign medical-device manufacturers must also re-register second-or-third generation versions of previously approved products, and the Department of Health also requires the registration of individual products instead of entire product lines. U.S. exporters have repeatedly complained that delays in the registration process limit their access to Taiwan's market.

Pharmaceutical manufacturers contend that DOH regulations are not consistently applied, particularly with regard to clinical-trial data requirements. Pharmaceutical companies claim that clinical-trial requirements in Taiwan for drugs that have been approved in other major markets add 2-3 years to the approval time. All of these requirements limit U.S. firms' access to the Taiwan market.

In May 1994, the BCIQ announced that mandatory inspection for CNS compliance of domestic and imported portable electric drills, grinders, disc grinders, and circular saws would be implemented beginning August 1, 1994. The local importer is required to secure inspection-approval labels before products can be sold in the Taiwan market. BCIQ's safety inspection requires destructive testing of one sample (of each model of tool) of the first two shipments each year and the non-destructive testing of samples from each shipment thereafter. This system of repetitive testing is costly and unnecessarily burdensome. Not only is the destructive testing of the equipment costly, the delays caused by the inspection keep U.S. products from entering the market and create significant additional warehousing and inventory carrying costs for the U.S. firms and its local importers. U.S. firms are able to meet reasonable safety and reliability standards, including CNS standards. However, the current CNS system, which requires the testing of each shipment, is clearly burdensome, unreasonable, and a barrier to imports. U.S. firms believe that BCIQ should create a system for "type approval" of electric power tools. Type approval would entail one-time testing of a sample piece of equipment and some form of certification that a producer's manufacturing facilities will continue to turn out products of

a similar standard.

In 1997, the Taiwan authorities promulgated new electromagnetic compatibility (EMC) standards for computer and other electronic goods. Bilateral discussions led to a grace period prior to implementation of the new rules. The grace period allowed affected U.S. firms to comply without a disruption of U.S. computer exports to Taiwan.

### **Government Procurement**

U.S. and foreign construction companies have encountered very substantial problems in performing government contracts in Taiwan. These problems are severe enough to be considered trade barriers. The most common pattern of difficulty consists of frequent and unreasonable change orders introduced during performance of the contract. Performance bonds are forfeited and contracts canceled when foreign construction companies are unwilling to accommodate substantially increased costs within the originally agreed payment. Lack of timely and effective arbitration procedures prevents satisfactory resolution of contract disputes. Some major international contractors will no longer undertake significant contracts in Taiwan.

U.S. industry has also been hindered in bidding on major projects by nontransparent procurement procedures, which include the use of invisible ceiling prices on bid tenders and unlimited potential damages and contingent liability requirements that are inconsistent with international practices. Other problems include: expensive bond requirements, unclear payment schedules, and pre-qualification requirements that limit experience to similar projects in Taiwan and disqualify related overseas experience. Additional limitations include a requirement that foreign firms have a local construction license or else establish a local subsidiary in order to bid on public projects. Possible exceptions to current laws involve construction service requiring new technology or cases where foreign firms provide consulting and other services.

In connection with its accession to the WTO, Taiwan has agreed to join the Agreement on Government Procurement (GPA). Adherence to the GPA's procedures should improve the transparency of the bid process on major government procurement contracts. In addition, Taiwan has agreed to new dispute settlement procedures on major government contracts. Legislation establishing new procurement rules and a new dispute settlement system, operated by the Taiwan authorities, was ratified by the legislative Yuan on May 1, 1998. The passage of Taiwan's Government Procurement Law is a step in the

right direction. The next step is to ensure that the implementing regulations are also fair, transparent, and beneficial to all involved in government contracting before the law goes into effect in 1999.

### **Free-Trade Zones/Warehouses**

Taiwan's three export-processing zones (EPZs) are established in order to encourage investments, and to expand the export of products and services. Therefore, all products imported by enterprises located in EPZs for their own use are exempt from customs duties. The products of the manufacturing industry in the EPZs are normally for export. However, 100 percent of their annual production may be allowed for sale on the local market after the payment of customs duties starting from April 1997.

On October 17, 1996, The Executive Yuan (Cabinet) approved new regulations offering lucrative tax incentives to help transform EPZs into warehousing transshipment centers. On April 16, 1997, the Legislative Yuan passed these new regulations, which became effective upon presidential promulgation on May 8, 1997. Industries accommodated in the zones have been expanded from manufacturing to include large warehouses, transshipment firms, loading, unloading, and repair services. Business activities in the zone are tax free, with shipments from the zones to domestic markets subject to taxes.

Opened in 1980, the Hsinchu Science-Based Industrial Park is Taiwan's most visible attempt to move into technology-intensive industries. Firms investing in the park enjoy substantial tax benefits, concessionaire public financing, low land cost, and support services such as warehousing, factories, and telecommunications facilities. Customs duties must be paid if the finished product is sold domestically.

The Science-Based Industrial Park Administration has proposed an overall development plan for the Tainan Science-Based Industrial Park, the construction of which has been getting underway since its launch in July 1996. The entire construction will be completed by the year 2010.

Bonded factories may be established anywhere in Taiwan. Bonded factory companies produce primarily for export markets and may import their manufacturing components and raw materials duty free. However, the authorities will not extend duty-free treatment to items whose duty rate is already considered minimal, materials known to pollute the environment, and items for which a domestic source is readily available. Bonded storage facilities are available in Taiwan and are limited

almost entirely to those warehouses under the direct supervision of the Directorate General of Customs. Goods may be entered into bonded warehouses on arrival in Taiwan, provided the consignee has made prior application to customs for such entry.

### **Special Import Provisions**

For political, diplomatic, or economic reasons, the authorities have placed restrictions on the imports of certain permissible goods from designated procurement areas. In order to counter its chronic trade deficit with Japan, Taiwan previously excluded Japan and favored North America and Western Europe through regional restrictions in import-licensing procedures and in public-procurement tenders. However, the area import restrictions were abolished on June 1, 1997, to facilitate Taiwan's joining the World Trade Organization (WTO). Also restricted and/or controlled is the importation of certain products on the grounds of national security, maintaining the public order, or preserving human, animal or plant health. All require a prior import permit issued by the Board of Foreign Trade.

Taiwan has lifted the ban on importation of a large number of raw food products and industrial materials and components from mainland China (PRC), based on the needs of the food processing and other industries in Taiwan. Currently, 54 percent of all import categories in the Taiwan tariff schedule can be imported from the PRC; the rest remain banned. Starting May 19, 1998, however, Taiwan extended to all banned PRC imports the same rules and regulations it applies to all other imports with regard to country of origin and value-added processing. In other words, banned goods from the PRC can be imported if it can be shown that they were primarily made elsewhere, and did not undergo substantial transformation in the PRC. The definition of "substantial transformation" is value-added that exceeds 35 percent of the final export value of the good.

### **Membership in Free Trade Arrangements**

Although Taiwan is currently not a member of any free-trade organizations, it has made some progress in its attempt to join international organizations in recent years. Taiwan has applied to join the WTO and its application is being handled by a WTO working party. Taiwan is now holding bilateral talks with WTO members on tariff reductions and market-liberalization issues. The bilateral talks are now near completion. Taiwan became a member of the Asia Pacific Economic Cooperation (APEC) in November, 1991. Taiwan also became a member of the Central American Bank for Economic Integration in 1992.

<NREC>Taiwan07 Taiwan: Investment Climate <A>=Taiwan

## **VII. Investment Climate**

Taiwan has taken steps to liberalize its economy and improve its investment environment in order to achieve its goals of joining the World Trade Organization (WTO) and developing the island into an Asia-Pacific regional operations center. Taiwan has completed nearly all bilateral consultations for entering the WTO. Cross-strait tension in 1996 and East Asian financial turmoil since the middle of 1997 have not deterred foreign investors from coming to Taiwan. Foreign firms investing in Taiwan are generally accorded national treatment. Trade-related capital flows are basically unrestricted. Investment disputes are rare. Most export- performance and local-content requirements have been removed. Foreign-ownership limits remain although they have been substantially relaxed. Portfolio investment has been opened to both institutional and individual foreign investors, but foreign investors are still subject to both restrictions on investment funds and limits to ownership. Taiwan has a comprehensive legal system that protects foreign investments and property rights and ensures fair competition. Taiwan is a stable multi-party democracy. Entry for white-collar foreign workers has been relaxed substantially. Labor disputes rose in 1997 due to an increase in business closures and a step-up in the privatization of state-owned enterprises.

### **Openness to Foreign Investment**

Taiwan has long encouraged and facilitated direct foreign investment. Regulations affecting foreign-invested enterprises are generally transparent and non-discriminatory. The authorities have taken a number of steps to improve the investment climate, especially for service industries. All foreign-ownership limits on construction, real estate development and brokerage, banking, insurance, bills finance, securities, and futures industries have been lifted. One exception is that a minimum foreign-ownership requirement of 20 percent has been set for securities-investment trust companies.

In the middle of 1997, foreign shipping companies were permitted to set up branch offices on the island. Since then, the limit on equity participation in shipping companies, shipping agents, marine cargo forwarders, ground-handling

firms, air-cargo terminals, air-catering companies, and air-cargo forwarders has been raised from 33 percent to 50 percent. The foreign-ownership limit remains at 33 percent for domestic airlines. In early 1998, the United States and Taiwan initialed a bilateral World Trade Organization (WTO) accession agreement which will significantly open the Taiwan market to foreign trade and investment. For example, the agreement will lead to reduced inter-connect fees for U.S.-invested mobile-phone companies, and will eventually increase the foreign-ownership limit in a telecommunications firm from 20-60 percent. A similar foreign- ownership limit on cable TV networks will also be raised from 20 percent to 50-60 percent. Legislation for such raises is under way. Taiwan announced plans to accelerate the timetable for liberalizing satellite and wireline telecommunications beginning in 1998 and continuing through the year 2000.

A "negative list" adopted in 1990 had clearly specified industries closed to foreign investment. However, as a result of bilateral consultations for Taiwan's entry WTO as well as Taiwan's own liberalization initiative to build a regional operations center, the list has been cut significantly almost every year. Power generation, oil refining, piped-gas supply, telecommunications, real-estate development, trucking, container- train operations, and car leasing have been opened to foreign investment. Power generation and telecommunications had been subject to foreign ownership limits of 30 percent and 20 percent, respectively; the limit on power generation was raised to 50 percent in 1997, but the limit for telecommunications remains unchanged. Foreign investment is currently prohibited in industries such as agriculture, forestry, fishing, pesticides, explosives, fire arms, military instruments, postal services, postal savings, broadcasting, and electricity distribution. Under Taiwan's WTO commitments, legislation is pending which will open to foreign investment and ownership cigarette manufacturing, and liquor, wine, and beer production. This legislation could pass as early as late 1998 and begin to be implemented in 1999.

Amendments to the Statute for Investment by Foreign Nationals (SIFN) and to the Statute for Investment by Overseas Chinese (SIOC) passed the legislature in 1997. These amendments permitted foreign investors to invest in NT dollars, relaxed restrictions on repatriation, and exempted joint ventures with foreign ownership below 33 percent from limitations applicable to industries on the "negative list." Both the SIFN and the SIOC specify that foreign-invested enterprises must receive the same regulatory treatment accorded their local counterparts. Foreign companies may invest in firms undergoing privatization. They are also eligible to participate in public-financed

research-and- development programs.

Applications for investment approvals, acquisitions, and mergers are screened by the Ministry of Economic Affairs' Foreign Investment Commission (FIC) to determine whether the investment is subject to the restrictions mentioned above. FIC approval is generally granted within two working days for an investment below NTD500 million, or within three days for an investment below NTD1 billion. Investments with an amount exceeding NTD1 billion (\$29 million at an exchange rate of NTD34 per US dollar) are screened by an inter-ministerial commission. Processing generally takes about two to three weeks depending on the frequency of the commission's meeting. Screening is routine and non-discriminatory.

Taiwan offers a number of incentives to encourage investment, including accelerated depreciation and tax credits for investment in pollution-control systems, production automation, and energy conservation. Equipment for R&D purposes can be brought into Taiwan duty-free. Other incentives include low-interest NT dollar and/or foreign currency loans for developing new and/or leading products, upgrading traditional industries, and importing automation or pollution-control equipment. A broad five-year tax holiday for new investments, abolished in January 1991, was re-instituted in January 1995.

### **Right to Private Ownership and Establishment**

Private investors have the general right to establish and own business enterprises, except in industries involving either national security or state-owned monopolies. Private entities have the right to freely acquire and dispose of interests in business enterprises. Excepting sectors controlled by state monopolies, private business firms have the same access as state-owned companies to markets, credit, licenses, and supplies.

### **Protection of property rights**

Taiwan has a comprehensive legal system that protects and facilitates the acquisition and disposition of property rights. A full range of criminal and administrative relief is available to rights holders. Criminal sentences, including jail terms for egregious cases, are routinely meted out by Taiwan courts in intellectual property rights (IPR)-related cases. Civil damage compensation is also available. Instituted export monitoring procedures for computer-software products and trademarked goods appear to have helped deter the export of pirated and counterfeit goods. Taiwan is not a member of the Bern or Paris Conventions, although it generally adheres to the

principles embodied in those agreements.

Taiwan's copyright, patent, and trademark laws already provide a level of protection for rights holders that meets most international standards. Those laws were further amended in 1997 to conform with all TRIPS standards, as required in the process of WTO accession negotiations with the United States and other trading partners. The legislature passed the Trade Secret Law and Integrated Circuits Law in 1995. Amendments to the Patent Law and Trade Market Law passed the legislature in April of 1997, while amendments to the Copyright Law passed the legislature in December 1997. However, these amended laws will not go into effect until Taiwan accedes to the WTO.

### **Performance requirements and incentives**

The Taiwan authorities impose few performance requirements on foreign-invested firms. Like domestic firms, however, foreign-invested companies must locate in areas zoned for appropriate industrial or commercial use and are subject to restrictions on the number of foreign employees that can be hired. Tax credits and tax breaks are offered to encourage the introduction of new technology into Taiwan. Tax credits are also offered to encourage locating in less-developed areas of Taiwan. Subsidies of up to one-half of total expenditures are offered for R&D ventures. Taiwan does not require that firms transfer technology, locate in specified areas, or hire minimum numbers of local employees as a prerequisite to obtaining investment permission.

Manufacturing firms located in export-processing zones and science-based industrial parks are, in principle, required to export all of their production in exchange for tariff-free treatment of production inputs. However, these firms may sell all of their production on the domestic market upon payment of relevant import duties.

Local-content requirements (LCRs), abolished for most industries in 1986, remain in place for motor vehicles. Thirty-one percent local content is required for heavy-duty vehicles over 10 tons, 37 percent for heavy-duty vehicles of 3.5-10 tons, 50 percent for sedans, small trucks, and vans, and 90 percent for motorcycles. The LCR for sedans will be lowered to 40 percent on January 1, 1999. Taiwan has committed to abolishing all of the remaining local-content requirements upon its accession to WTO.

### **Transparency of the regulatory system**

Taiwan's laws and policies generally foster competition.

Taiwan has a set of relatively comprehensive laws and regulations to govern taxes, labor, health, and safety.

Bureaucratic procedures associated with investment applications are relatively few and transparent. The Industrial Development and Investment Center (IDIC) functions as the coordinator between investors and all agencies involved in the investment process. The Foreign Investment Commission (FIC) is charged with reviewing and approving inward and outward investments. A bill to merge the IDIC and FIC is now before the legislature.

The work-permit issuance procedure for foreign white-collar employees has been improved. Foreign-invested manufacturing firms can obtain work permits from the FIC in 3 to 4 days. Workers for domestic firms and investors in non-manufacturing enterprises are required to obtain work permits through the agency in charge of that particular sector (e.g., the Ministry of Justice for foreign legal consultants), but may submit applications to the FIC for transmission to the relevant agency. In the future, the issuance of work permits will be consolidated at a one-stop window to be set up by the Council of Labor Affairs (CLA).

The entry-visa issuance procedures for foreign white-collar workers who work for foreign-invested companies have been simplified. A foreign executive who enters Taiwan with a tourist visa is no longer required to leave the island before the tourist visa can be changed to an employment visa. A foreign executive whose employment visa expires is no longer required to exit before the visa is renewed.

## **Corruption**

Taiwan has implemented laws, regulations, and penalties to combat corruption. The anti-corruption statute, known as the "Corruption Punishment Statute," and the "Criminal Code" contain specific provisions which establish penalties for corrupt activities.

Although corruption has been a source of complaint by U.S. businesspeople with operations in Taiwan, its impact on foreign direct-investment decisions has been relatively less serious than in areas such as public procurement. We are not aware of cases where bribes have been solicited in order to obtain approval for an investment. The Taiwan authorities welcome and encourage foreign investment and would take severe action against officials and individuals convicted of profiting illegally from foreign investors.

Corruption has been reported as most pervasive in the area of

government procurement, particularly in public-sector construction projects. Local-level construction tenders seem to have the highest level of corruption. Some prosecutors estimate that payments to organized crime syndicates amount to 8 to 15 percent of the cost of all public engineering projects. The authorities have been investigating alleged corrupt procurement practices at both the provincial and central level. These investigations have resulted in a few convictions.

The authorities generally investigate allegations of corruption and take action to penalize corrupt officials. Several township mayors were indicted for illegal rent seeking in garbage-disposal and public-works construction projects. The former director of the Taipei County Reconstruction Department and several businessmen were indicted for trying to profit illegally from land-rezoning and reclamation programs. A county magistrate received a life sentence in early 1997 for taking kickbacks for construction projects five to ten years ago when he was a senior provincial official.

Attempting to bribe or accepting a bribe from Taiwan officials constitutes a criminal offense, punishable under the "Corruption Punishment Statute" and the "Criminal Code." Payment of a bribe to a foreign official is not deemed a criminal act. However, if a Taiwan business representative bribes a foreign official, that representative's company may bring civil action against the offender. Such a bribe, moreover, cannot be legally deducted from taxes.

The maximum penalty for corruption is a life sentence plus a maximum fine of three million NT dollars (\$100,000). In addition, the offender may be barred from public office. The assets obtained from acts of corruption may be seized and turned over to either the injured parties or the Treasury.

The Ministry of Justice has a mandate to combat and investigate corruption. In addition, each public office has a special unit charged with handling anti-corruption activity. Since the island's March 1996 presidential election, Taiwan has mounted a high-profile campaign against corruption. One designated purpose is to eliminate the investment barrier of corruption.

## **Labor**

Taiwan has an ample supply of well-educated and skilled workers. However, labor shortages still exist in some rapidly expanding fields, including semiconductor and computer chip design and production, computer software design, securities brokerage, futures trading, and foreign-exchange services. The supply of unskilled workers remains relatively tight among

consumer electronics, pottery, metal pressing, and public construction works. The tight labor supply problem has improved for such industries as garments and apparel, umbrella, footwear, dyeing, and finishing. This is because many such businesses have relocated overseas. Since July 1997, financial turmoil in East Asia has dampened business performance and further weakened the demand for labor. As a result, the number of alien workers in Taiwan, which rose moderately in 1997 from 250,000 to 255,000, dropped to 251,000 by the end of April 1998. This drop in demand for labor caused the labor-shortage ratio (job vacancies as a percentage of employment) to plunge from over eight percent in 1992, to 3.5 percent in 1996, and further declined to 3.4 percent by the end of 1997.

The decline in labor demand prompted the authorities to freeze employment of alien workers. This helped to reduce the unemployment rate to a two-year low of 2.29 percent in April 1998, compared to an average of 2.6 percent in 1996 and 2.7 percent in 1997.

There are no special hiring practices, but wages include at least a one-month bonus at the end of the year; fringe benefits often include meals, transportation, and sometimes dormitory housing. A standard labor insurance program is mandatory. The program provides maternity, retirement, and other benefits. A universal National Health Insurance System, which went into effect in March 1995, has replaced the health insurance aspects of the labor- insurance program. The system has expanded coverage to include the families of employees. The combined premium cost of the two programs to an employer is, on average, two to three times greater than the cost of the previous labor-insurance program (costs vary according to workers' monthly salaries).

Taiwan does not have unemployment insurance, but the authorities plan to implement such a program in the second half of 1998. The Council of Labor Affairs (CLA), however, does run a limited unemployment-relief program that is available for only a small fraction of the labor force. The Labor Standards Law (LSL) sets a standard eight-hour work day and 48-hour work week. From January 1998, the public sector implemented a five-day-workweek for 2 weeks each month. Forty percent of business firms had adopted the new system by the end of May 1998. The LSL restricts child labor, and requires employers to provide overtime pay, severance pay, and retirement benefits. LSL coverage will be expanded from the manufacturing sector to include nearly the entire service sector by the end of 1998. The authorities impose criminal penalties (fines) for labor-law violations.

Taiwan's minimum wage is set at NTD15,840 (or \$459 at the exchange rate of NTD34 per US\$) per month. Current manufacturing wages average NTD35,275 (or \$1,037). The minimum wage is adjusted in August every year based on the inflation rate (measured by the consumer-price index) plus half of the increase in labor productivity. In 1997, the CLA brought the Chinese Federation of Industries and the National Federation of Labor Unions to a collective-bargaining table in an attempt to allow them to jointly determine the minimum wage. However, the two parties failed to reach any agreement.

Labor unions have become more active and independent since martial law was lifted in 1987. The number of workers involved in labor disputes, following a consecutive three-year decline, shot up to 81,000 cases in 1997, 2.7 times the 1996 figure. This average can be attributed to increased business closures and continuing privatization of state-owned enterprises. Taiwan is not a member of the International Labor Organization (ILO), but it generally adheres to the ILO convention on protecting worker rights.

### **Capital Markets and Portfolio Investment**

A wide variety of credit instruments, all allocated on market terms, are available to both domestic- and foreign-invested firms. Legal and accounting systems are transparent and consistent with international standards. The regulatory system is generally fair. Foreign investors are subject to some ownership and investment-fund limits. In recent years, the Taiwan authorities have taken a number of steps to encourage the more efficient flow of financial resources and allocation of credit. The limit on NT dollar deposits that a branch of a foreign bank may take has been lifted. Non-residents have been permitted to open NT-dollar bank accounts, which are subject to capital-flow controls. Limits on branch banking have been lifted. Restrictions on capital flow relating to portfolio investment have been removed. The insurance and securities industries have been liberalized and opened to foreign investment. Access to Taiwan's securities markets by foreign institutional investors has also been broadened.

Taiwan has a complicated regulatory system governing portfolio investment. Officially approved "qualified foreign institutional investors" (QFIIs), including large banks, insurance companies, securities firms, and mutual funds, can engage in portfolio investment. In March 1996, portfolio investment was opened to individual foreign investors and foreign companies other than QFIIs. However, foreign investors are still subject to portfolio- investment limits of \$5 million for an individual foreign investor, \$50 million for a non-QFII

foreign company, and \$600 million for a QFII. Since March 1996, QFII capital flows have no longer been subject to restrictions. Non-QFII foreign investors may move their capital freely as long as the amount comes below \$5 million for an individual foreign investor and \$50 million for a non-QFII foreign company.

Taiwan has legal limits on foreign ownership in companies listed on the Taiwan Stock Exchange (TAIEX). The limits, raised from time to time, are 15 percent for a single direct foreign investor and 30 percent overall. The financial authorities plan to totally eliminate foreign ownership limits by 2000. There have been no reports of private or official efforts to restrict the participation of foreign-invested firms in industry standards-setting consortia or organizations.

Taiwan has a tightly regulated banking system. Since the mid-1980s, the financial sector as a whole has been steadily opening to private investment. Nevertheless, the share held by foreign banks remains relatively small. The establishment of many new securities firms, banks, and insurance companies has underscored this liberalization trend and enhanced competition. Three large provincial banks were privatized in early 1998, cutting the number of public banks to ten. The privatization has cut the share of assets controlled by public banks down from 61 percent of total assets of all domestic and foreign banks to 48 percent. The total assets of these ten public banks were \$337 billion as of December 31, 1997.

### **Conversion and Transfer Policies**

There are relatively few restrictions on converting or transferring funds associated with direct investment. Foreign investors with approved investments can readily obtain foreign exchange from a large number of designated banks. The remittance of capital invested in Taiwan is made according to a schedule submitted by the company to the FIC. Declared earnings, capital gains, dividends, royalties, management fees, and other returns on investments can be repatriated at any time. The SIFN and SIOC, as amended in 1997, eliminated the measures that restricted the repatriation of the invested principal to one year after the venture begins operation. Capital movements arising from trade in merchandise and services, as well as from debt servicing, are not restricted. For purposes other than trade, no prior approval is required if the cumulative amount of inward or outward remittances is less than \$5 million for a resident, and \$50 million for a corporation (including foreign-invested enterprises). No delay in remitting investment returns or principal through legal channels has been reported.

An outward investment may not exceed 40 percent of the investing company's paid-in capital unless such an investment project is approved by its shareholders. A local company is not required to obtain prior approval for overseas investments of less than \$50 million. Prior approval is required for all investments in Mainland China, and such investments must first go through a third location.

The Taiwan authorities have actively encouraged investment in Southeast Asian nations, especially after financial turmoil erupted in these countries in July 1997. Investments are also encouraged in a number of countries with which Taiwan has diplomatic relations, mainly in Central America. Incentives include loans and/or overseas investment insurance with the Export-Import Bank of China.

### **Expropriation and compensation**

Taiwan law stipulates that no venture with 45 percent or more foreign investment can be nationalized for a period of 20 years after the venture is established. Further, Taiwan law stipulates that expropriation can be justified only for national defense needs, and that "reasonable" compensation shall be given. No foreign-invested firm has ever been nationalized or expropriated. No examples of "creeping expropriation" or official actions tantamount to expropriation have been reported.

### **Dispute settlement**

Taiwan is not a member of the International Center for the Settlement of Investment Disputes or the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. However, investment disputes are not common. Normally, Taiwan resolves disputes according to domestic laws and regulations.

Taiwan has comprehensive commercial laws, including a Company Law, Commercial Registration Law, Business Registration Law, Commercial Accounting Law, and laws for specific industries. Taiwan's Bankruptcy Law guarantees that all creditors have the right to share the assets of a bankrupt debtor on a proportional basis. Secured interests in property, both chattel and real, are recognized and enforced through a reliable registration system.

Taiwan's court system is independent and free from interference by the Executive Branch. Judgments of foreign courts having jurisdictional authority are enforced by local courts on a reciprocal basis.

## **Political Violence**

Taiwan is a relatively young multi-party democracy, with stable, though still evolving, democratic political institutions. Major civil disturbances, insurrections, or other serious threats to the political system are unlikely. There have been no reports of politically motivated damage to foreign investment. Both local and foreign companies have, however, been subject to protests and demonstrations relating to environmental issues.

## **Bilateral Investment Agreements**

Taiwan has concluded bilateral investment agreements with the following countries: Argentina, El Salvador, Honduras, Indonesia, Latvia, Malaysia, Malawi, Nicaragua, Nigeria, Panama, Paraguay, the Philippines, Senegal, Singapore, Swaziland, Thailand, and Vietnam.

Under the terms of the 1948 Friendship, Commerce, and Navigation Treaty with the United States, U.S. investors are generally accorded national treatment and are provided a number of protections, including protection against expropriation. Taiwan and the United States also have an agreement, signed in 1963, pertaining to investment guarantees which serves as the basis for the U.S. Overseas Private Investment Corporation (OPIC) program in Taiwan. In September 1994, representatives of the United States and Taiwan signed a bilateral Trade and Investment Framework Agreement (TIFA) to serve as the basis for consultations on trade and investment issues. Consultations on a bilateral-investment agreement between the United States and Taiwan are under way.

## **OPIC and Other Investment-Insurance Programs**

OPIC programs are available to U.S. investors, though U.S. investors have never filed an OPIC insurance claim for an investment in Taiwan. Taiwan is not a member of the Multilateral Investment Guarantee Agency.

## **Foreign-Direct-Investment Statistics**

Statistics on foreign direct investment in Taiwan are available from two sources. The Foreign Investment Commission (FIC) publishes monthly and yearly foreign-investment approval statistics by industry and by country. The Central Bank of China (CBC) publishes foreign-direct-investment arrivals on a quarterly and yearly basis. CBC data, contained in balance-of-payments statistics, are not further classified by industry or country.

Financial turmoil elsewhere in East Asia has driven foreign investors to Taiwan. Foreign-investment approvals shot up 73 percent to \$4,267 million in 1997 compared to 1996 and another 51 percent to \$645 million in the first quarter of 1998 compared to the same quarter the previous year.

Cumulative foreign-investment approvals from 1952 to 1997 totaled \$29 billion. Of this amount, one-quarter was directed toward the electronics and electrical industries. Other industries with relatively heavy foreign investment include chemicals, services, banking and insurance, basic metals, and trade.

Although Japan is the top foreign investor in Taiwan, the United States is a close second. Approvals for U.S. investment from 1952 to 1997 totaled \$7.3 billion, or 25 percent of total foreign investment. Forty-three percent of U.S. investment was directed toward the electronics and electrical industries, with another 17 percent in chemicals. Approvals for Japanese investment amounted to \$7.4 billion, or 26 percent of total foreign investment. Of total Japanese investment, 28 percent went to electronics and electrical industries, and another 22 percent to services and trade. A growing number of multinational corporations direct funds for their Taiwan investments from tax havens in the British territories in America (BTA). Approvals for investment from BTA surged from \$151 million in 1995 to \$417 million in 1996 and to \$659 million in 1997, compared to \$491 million from the United States.

Taiwan is aggressively pursuing cooperation agreements with foreign companies to encourage those firms to make Taiwan their "regional operations center" for East Asia. Of the 53 "strategic- alliance agreements" with multinational firms (many of which have a technology-cooperation component), 32 have been signed with U.S. companies. Nearly a third of the agreements has been designed to manufacture or develop electronics or electrical and telecommunications products and systems. Nearly one-quarter are intended to develop the aerospace industry.

As a relatively open and liberal economy, Taiwan receives foreign investment while its businesses heavily invest overseas, especially in the PRC, Southeast Asia, and America. Outward direct investment has exceeded inward direct investment since 1988, according to balance-of-payments statistics compiled by the Central Bank of China. FIC statistics show, as of 1997, cumulative approvals for outward investments totaling \$26.5 billion. Mainland China has received 42 percent of Taiwan's outward investment. A growing number of Taiwan investors have moved to tax havens in the British territories

in America. Taiwan's investment there shot up from \$370 million in 1995 to \$1,051 million in 1997, exceeding the amount headed for the United States in the past four years. This coincides with a sharp increase in foreign investment in Taiwan coming from these British territories in the recent years. Rumor has it that some Taiwan investors have applied to invest in Taiwan as foreign investors in an attempt to evade Taiwan taxes. The FIC claims that it has not found evidence of such tax evasion.

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## **VIII: Trade-and-Project Financing**

### **The Banking System**

Taiwan has a Central Bank, 47 domestic banks (with 2,252 branch offices) and 45 foreign banks (with 26 local branches). There are also 60 credit cooperatives, 287 farmers' credit unions, and 27 fishermen's credit unions in Taiwan. These banks, cooperatives, and credit unions have traditionally played a dominant role in finance on the island.

The Central Bank performs all of the functions normally associated with central banks. It issues currency, manages foreign-exchange reserves, handles treasury receipts and disbursements, sets interest-rate policy, oversees the operations of other financial institutions, and serves as a lender of last resort.

Taiwan's 47 domestic banks offer a wide range of services including receiving deposits, making loans, handling trade financing and providing guarantees, and discounting bills and notes. Most are also involved in the securities business, underwriting and trading securities and managing bond and debenture issues, as well as in providing savings-account facilities. The Chiao Tung Bank assists with long-term financing for industries and projects, while the Export-Import Bank and the Farmers' Bank focus respectively on trade financing and agricultural development.

Foreign banking institutions are playing an increasingly important role on the financial scene. Foreign banks are treated essentially as domestic commercial banks; they are permitted to engage in trade financing, foreign-exchange dealings, lending to

individuals and corporations, and various kinds of trust business. In order to build greater overall market presence, many foreign institutions are currently concentrating on the development of consumer loan and credit-card business.

### **Foreign-Exchange Controls**

There are no foreign-exchange (FX) amount limitations for trade, insurance, and authorized-investment transactions. Similarly, there are no FX limitations on repatriating capital and profits related to direct and portfolio investment, providing that such investment has been permitted or approved by the Taiwan authorities. All other transactions involving inward or outward remittances for domestic firms have a \$50 million annual ceiling per account. Individuals are allowed to remit a maximum of \$5 million yearly to or from overseas.

### **Financing Availability**

Importers are usually responsible for arranging their own financing. The Taiwan authorities' assistance is, however, available in certain cases. The Export-Import Bank, for instance, provides loans of up to 85 percent of the total contract value on sophisticated machinery and other high-technology items. Loans are also available for imports of natural resources, raw materials, and spare parts. Such loans can be granted for equipment and materials employed in the manufacture of goods for export, as well as for those used in the production of sophisticated equipment or the development of advanced technologies.

### **Methods of Payment**

Bank-to-bank Letters of Credit (L/C) constitute Taiwan's most important import-payment process. In 1997, Taiwan's imports totaled \$114 billion, of which \$58 billion was financed through L/Cs. On a lesser scale, company to company payments are made via open account (O/A), documents against payment (D/P), and documents against acceptance (D/A). The AIT Commercial Section recommends that U.S. exporters minimize financial risk by requiring their Taiwan trading partners to finance their imports through L/Cs. A large majority of Taiwan's importers utilize L/Cs with validity of up to 180 days. On the whole, U.S. companies find Taiwan's financing system to be efficient and report no widespread pattern of deferred payment.

Any banks authorized to handle foreign exchange may issue L/Cs. This includes local banks (and their branch offices), 14 U.S. banks and their branches, and 31 third-country banks. All banks in Taiwan that are authorized to handle foreign exchange have

extensive ties with one or more U.S. banks. This relationship includes test-key exchanges.

### **Project Financing**

Taiwan does not rely on money from multilateral institutions to facilitate investment projects. In the public sector, the Taiwan authorities rely heavily on bond issuance to cover the huge outlays connected with construction of major public works. Beginning 1997, some major public projects were opened to private investment on a build-operate-transfer (BOT) basis. Construction of a high-speed railway from Taipei to Kaohsiung was for the first time consigned to a business consortium that will seek syndicated loans mainly from local sources to finance the project. Private investment projects can easily be financed through banks on the island. Moreover, many Taiwan investors, especially large-sized companies, employ financial instruments (including corporate bonds) to raise funds in capital markets both at home and abroad.

### **Major Banks with Correspondent-U.S.- Banking Arrangements**

- Bank of Taiwan
- International Commercial Bank of China
- Chiao Tung Bank
- Export-Import Bank
- Farmers Bank of China
- Taipei Bank
- Taiwan Cooperative Bank
- Chang Hwa Commercial Bank
- First Commercial Bank
- Hua Nan Commercial Bank
- Chinatrust Commercial Bank
- Shanghai Commercial & Saving Bank
- United World Chinese Commercial Bank
- Bank of Overseas Chinese

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<NREC>Taiwan09 Taiwan: Business Travel <A>=Taiwan

## **IX: Business Travel**

### **Business Customs**

Formal business introductions in Taiwan are not complete without an exchange of business cards. It is advisable for foreign

visitors to have their cards printed in both English and Chinese. There are numerous printers in Taiwan that specialize in printing these indispensable business aids. They offer accurate, low-cost service, with card orders normally being filled within only a few days. Since cards are required on nearly every business occasion, it is a good idea to carry sizable numbers of them at all times.

The New Taiwan dollar (NTD) is the official currency. It is circulated in one-, five-, ten-, and fifty-dollar coins, and fifty, one-hundred, five-hundred, and one-thousand dollar notes. Since the relaxation of foreign currency controls in 1987, exchange between foreign currency and the NTD has become relatively free, although exchange is still limited to authorized banks and dealers.

Up to NTD 40,000 and USD 5,000 can be brought into Taiwan by a foreign visitor. It should, however, be declared on the customs slip that must be filled out upon entering the island. Foreign currency can be exchanged at the airport, as well as at authorities-designated banks, hotels, and shops. In addition, internationally-recognized credit cards are accepted in many hotels, restaurants, and shops. The use of automatic-teller machines is very popular on the island also. It should be noted that a surcharge is sometimes added when payment is made by credit card.

In most instances, tipping is not necessary. A 10-percent service charge is usually added to restaurant and hotel bills, eliminating the need for gratuities in such situations. It is, however, relatively common to leave the change when a bill is paid.

Porters at hotels and airports customarily receive tips for their services. Approximately NTD50 - NTD100 per item of luggage is acceptable. It is not necessary to tip in taxis unless assistance with luggage is rendered, but most drivers do appreciate being allowed to keep small change.

### **Travel Advisory and Visas**

Taiwan has low-level of violent crime. Although normal precautions should be taken by visitors, the streets of Taipei and other cities are safe at any hour. While violent crime is rare, Taiwan's pickpockets and thieves are extremely clever, so valuables should be properly secured. Taxi drivers, restaurateurs, store clerks, and other service people are normally quite honest and often solicitous of the needs of the non-Chinese speaking foreign guest. The people of Taiwan are generally outgoing toward foreigners and often will go out of

their way to assist visitors.

U.S. citizens and citizens of fourteen other nations may visit Taiwan for up to fourteen days without a pre-arranged visa, providing they have a return plane ticket off the island with reservations and more than 6 months of validity left on their passport. Other visitors to Taiwan are required to have valid Taiwan visas. These can be obtained from authorized representative offices in the United States. Two basic types of non-official visas are available to foreign visitors, depending upon the nature and duration of intended visits.

Extensions of visitor visas may be granted up to a maximum of two extensions of sixty days each, provided applicants have valid grounds for making such requests. Applications for extensions are administered by the city/county police headquarters. No extensions are granted to those who enter Taiwan without a pre-arranged visa except in the event of force majeure or matters of vital importance.

Foreign visitors from nations with which Taiwan has reciprocal visa agreements receive visitor visas free-of-charge. The visa fee for those from other countries is NTD1,000 for a single-entry visa and NTD2,000 for a multiple-entry visa.

A one-year multiple-entry visitor visa is available to a representative of a foreign company that has recorded total import and export transactions with Taiwan amounting to USD600,000. Up to four such visas can be granted to foreign employees of any one company, with an additional USD600,000 in total transactions being necessary to qualify for each of these visas. Six-month and three-month multiple-entry visitor visas are available for respective transaction amounts of USD300,000 and USD100,000. Applications for multiple-entry visitor visas must be referred to the Ministry of Foreign Affairs. Normally, foreign nationals make application through their domestic Taiwan agents, representatives, or affiliates of their firms.

## Holidays

There are four holidays and four festivals in Taiwan. Dates for the four festivals -- which include Chinese Lunar New Year day, Tomb-Sweeping Day, Dragon Boat Festival, and Mid-Autumn (Moon) Festival -- change with the lunar calendar. The following is a list of the four holidays and four festivals in Taiwan:

| Holidays               | Date                 |
|------------------------|----------------------|
| -----                  | -----                |
| Founding Day           | January 1            |
| Chinese Lunar New Year | Late Jan. - Mid Feb. |

|                            |                     |
|----------------------------|---------------------|
| Peace Memorial Day         | February 28         |
| Tomb-Sweeping Day          | April 5             |
| Dragon Boat Festival       | Late May - Mid June |
| Mid-Autumn Festival        | September           |
| Double Tenth/National Day  | October 10          |
| Dr. Sun Yat-Sen's Birthday | November 12         |

## **Business Infrastructure**

### **1. Transportation**

Taiwan has two international airports, Chiang Kai-shek International and Kaohsiung International. Both offer regular flights to major destinations around the world. There are also several domestic airports and domestic airlines that provide fast and convenient connecting flights between Taiwan's larger cities, as well as outlying islands.

For travel within Taipei and various other major cities, taxi drivers are obliged to use the meter to calculate the fare. The basic charge is NTD50 for the first 1.65 kilometers, with an additional NTD5 for every additional 350 meters. There is an additional charge of NTD15 added to the fare shown on the meter. In addition, there is also an additional NTD5 charge for every three minutes the vehicle travels below a speed of five kilometers per hour. A 20 percent nighttime surcharge is added between 11 pm and 6 am as well. Several taxi services that can be booked over the telephone are also in operation. A surcharge of NTD10 is applicable on such calls. These services are generally considered safer and more reliable than individual taxi. All taxis have a surcharge of NTD10 for luggage service, and there is a surcharge of 20 percent in effect for two days before the eve of the Chinese New Year until the end of that holiday period. It should be noted that a rise in Taipei taxi rates is pending. Since most taxi drivers cannot speak English, the visitor should always carry Chinese-language versions of both his hotel namecard and desired destination.

Bus services in major cities are quite extensive, but can be incomprehensible to the foreign visitor. A comprehensive long-distance bus system run by the Taiwan Auto-Transport Company and Tong-Lieng Bus Company enables people to travel virtually anywhere on the island quickly, comfortably and at reasonable cost. The Taiwan Railway Administration operates an extensive rail network that is more than 1,000 kilometers in length.

### **2. Language**

Mandarin is the official language. Taiwanese, a variant of the Fukien dialect, is also commonly spoken, especially in the

southern and rural areas. English is by far the most popular foreign language, and large numbers of people speak it with fluency. In particular, those working in hotels, business, or public organizations are likely to have a good command of the language. Moreover, many people, especially those educated before the Second World War, can also speak Japanese.

### **3. Communications**

In general, Taiwan's telecommunications systems are efficient and convenient. Cities in Taiwan are plentifully supplied with blue public phones that can be used for both local calls and domestic long-distance calls. Phone-card telephones have recently proliferated. Cards can be purchased from the convenience stores. Facsimile is widely used everywhere in Taiwan. Direct transmission is available to many countries in the world as well. Most major companies, hotels and business service centers have facsimile and telex services. Telex and facsimile facilities are also available at the Chungwa Telecom-International Business Group (CHT-I), while an electronic mail service that enable users to send their own facsimile messages can be found in every post office on the island. In addition, CHT-I also has extensive video-conference facilities in its Taipei Communications Building. A commercial network called Hint has been set up by Chunghwa Telecom to provide Taiwan users high-speed access to the Internet. Meanwhile, many networking companies provide various Internet services to satisfy the demand from domestic businesspeople and firms. In addition, the Integrated Services Digital Network (ISDN), which provides end-to-end and non-voice services, is now available from Chunghwa Telecom in Taipei, Taichung, Tainan and Kaohsiung.

### **4. International Courier Service**

In addition to the vast range of government postal services available in Taiwan, visitors should also be aware that most of the leading international courier services have set up operations on the island in the last few years. They offer delivery to and from most countries around the world. More detailed information concerning these firms can be obtained by consulting the telephone directory or one of the many privately published business directories available on the island.

### **5. Accommodations and Housing**

Taiwan has a large number of international- and domestic-standard hotels, hostels, and inns. For those who plan to stay in Taiwan on a long-term basis, a wide selection of apartments and houses is available. Rental costs vary considerably, depending on location and size. Typically, rents in Taipei and environs are

far higher than those in other parts of the island. Landlords frequently require deposits of up to two-months' rent, and tenants are usually responsible for utilities.

## **6. Health information**

As in many other tropical and sub-tropical areas, tap water in Taiwan should be boiled before drinking. Hotels and restaurants do provide drinking water, and bottled mineral water is widely available. Visitors should also take special care to wash all fruits and vegetables before eating and avoid eating in any of the island's countless street stalls, at least during the first few weeks of their stay.

There are numerous international-standard private and public hospitals and clinics. Taiwan also offers high-quality dental care, with most clinics being privately operated. The majority of doctors and dentists in Taiwan speak English well.

Many western brand-name pharmaceuticals are sold in Taiwan, often without prescription. In addition, a wide range of foreign and domestic over-the-counter non-prescription drugs is available. Visitors should, however, bring sufficient supplies of any specific medications they might require. Emergency medical treatment can be obtained by dialing 119.

## **7. Food**

Chinese cuisine ranks among the best in the world, and there is no better place to sample it in all its infinite variety than in Taiwan. In the countless large and small restaurants, specialties from almost every region can be found. Major regional styles include the Peking, Cantonese, Shanghai, Szechwan, and Hunnan cuisines. The local Taiwan cuisine and traditional Buddhist vegetarian restaurants are also well represented.

Western food is gaining in popularity, as can be seen from the many western-style restaurants and foreign fast food chains that have set up branches in Taiwan's large cities in recent years. Visitors will find everything from hamburgers, pizza, and steaks to the finest European cuisine.

Establishments serving other Asian cuisines can also be found in growing numbers in Taipei. Vietnamese, Thai, Indian, Malaysian, Korean, and Japanese food are all big favorites with the city's residents, with the latter two being particularly popular.

Foreign visitors should not overlook the fragrant teas for which Taiwan is justly famous. These teas can either be purchased in

attractive packages for use at home or sampled in one of the island's many traditional Chinese-style tea houses.

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<NREC>TaiwanA01 Taiwan: Country Data <A>=Taiwan

## **X: APPENDICES**

### **Appendix A: Country Data**

Population: 21.68 million (on 12/31/97)  
Population Growth: 0.99 percent  
Religions: Buddhism, Confucianism, Taoism,  
Christianity  
Government System: Democracy  
Languages: Mandarin (official), Taiwanese, Hakka.  
Frequent use of English and Japanese in  
business settings.  
Work Week: Monday - Saturday morning (As of January 1,  
1998, government employees. (except those who work for the  
police, health bureau and customs) and most private companies  
take every second and fourth Saturday of the month off.)

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<NREC>TaiwanA02 Taiwan: Domestic Economy <A>=Taiwan

### **Appendix B: Domestic Economy (USD millions, except where noted)**

|  | 1997    | 1998(e) | 1999(e) |
|--|---------|---------|---------|
|  | ----    | -----   | -----   |
| GDP (current)                            | 283,442 | 265,959 | 277,656 |
| GDP Growth Rate (percent)                | 6.81    | 6.02    | 6.27    |
| GDP Per Capita (USD)                     | 13,072  | 12,200  | 12,650  |
| Government Spending as<br>Percent of GDP | 23.1    | 22.3    | 23.8    |
| Inflation (percent)                      | 0.9     | 2.5     | 2.7     |
| Unemployment (percent)                   | 2.7     | 3.0     | 3.0     |
| Foreign Exchange Reserves                | 83,502  | 85,000  | 85,000  |
| Average Exchange Rate for<br>USD 1.00    | 28.70   | 33.33   | 33.44   |
| Debit Service Ratio (Ratio of            | 1-2%    | 1-2%    | 1-2%    |

principal & interest on foreign  
debit to foreign income)  
U.S. Economic/Military  
Assistance 0 0 0

Sources:

1. Directorate General of Budget, Accounting and Statistics
2. Central Bank of China
3. AIT/T

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<NREC>TaiwanA03 Taiwan: Trade <A>=Taiwan

**Appendix C: Trade**  
(USD millions, except where noted)

|                                | 1997    | 1998(e) | 1999(e) |
|--------------------------------|---------|---------|---------|
|                                | -----   | -----   | -----   |
| Total Country Exports (fob)    | 122,081 | 118,800 | 120,800 |
| Total Country Imports (cif)    | 114,425 | 114,100 | 115,000 |
| Trade Balance                  | 7,656   | 4,700   | 5,800   |
| U.S. Exports to Taiwan (cif)   | 23,234  | 23,150  | 23,350  |
| U.S. Imports from Taiwan (fob) | 29,552  | 28,760  | 29,240  |
| Trade Balance with U.S.        | 6,318   | 5,660   | 5,890   |

Sources:

1. Ministry of Finance
2. Directorate General of Budget, Accounting and Statistics
3. AIT/T

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<NREC>TaiwanA04 Taiwan: Investment Statistics <A>=Taiwan

**Appendix D: Investment Statistics**

Table 1  
Foreign Investment Approvals by Year and by Area  
(1952-1997)(unit: U.S. dollar million)

| Year | Japan | U.S.A. | Hong<br>Kong | Europe | Other | Total |
|------|-------|--------|--------------|--------|-------|-------|
|------|-------|--------|--------------|--------|-------|-------|

|       |       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|-------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 52-89 | 2,983 | 3,067 | 1,198 | 1,312 | 2,390 | 10950 |
| 1990  | 839   | 581   | 236   | 283   | 363   | 2,302 |
| 1991  | 535   | 612   | 129   | 165   | 337   | 1,778 |
| 1992  | 421   | 220   | 213   | 165   | 442   | 1,461 |
| 1993  | 278   | 235   | 169   | 214   | 317   | 1,213 |
| 1994  | 396   | 327   | 251   | 245   | 412   | 1,631 |
| 1995  | 573   | 1,304 | 147   | 338   | 563   | 2,925 |
| 1996  | 546   | 489   | 267   | 198   | 961   | 2,461 |
| 1997  | 854   | 491   | 237   | 401   | 2,284 | 4,267 |
| 52-97 | 7,425 | 7,327 | 2,846 | 3,321 | 8,069 | 28988 |

Source: Foreign Investment Commission

Table 2  
Foreign Investment Approvals by Industry and Area  
(1952-1997)(unit: U.S. dollar million)

| Industry        | Japan | U.S.A. | Hong Kong | Europe | Other | Total  |
|-----------------|-------|--------|-----------|--------|-------|--------|
| -----           | ----- | -----  | -----     | -----  | ----- | -----  |
| Total           | 7,425 | 7,327  | 2,846     | 3,321  | 8,069 | 28,988 |
| Electronics     | 2,027 | 3,127  | 395       | 608    | 1,031 | 7,188  |
| & Electrical    |       |        |           |        |       |        |
| Chemicals       | 632   | 1,253  | 249       | 920    | 394   | 3,448  |
| Services        | 875   | 607    | 384       | 247    | 992   | 3,105  |
| Banking & Insur | 154   | 245    | 345       | 461    | 1,350 | 2,555  |
| Basic Metal     | 612   | 318    | 121       | 122    | 914   | 2,087  |
| & Products      |       |        |           |        |       |        |
| Trade           | 754   | 375    | 302       | 210    | 370   | 2,011  |
| Machinery       | 726   | 277    | 98        | 131    | 341   | 1,573  |
| Food & Beverage | 231   | 202    | 96        | 103    | 419   | 1,051  |
| Wholesale       | 239   | 79     | 32        | 132    | 391   | 873+   |
| & Retail        |       |        |           |        |       |        |
| Transportation  | 42    | 56     | 123       | 4      | 587   | 812    |
| Non-metallic    | 139   | 167    | 81        | 77     | 186   | 650    |
| Minerals        |       |        |           |        |       |        |
| Others          | 994   | 621    | 620       | 306    | 1,094 | 3,635  |

Source: Foreign Investment Commission

Table 3  
Outward Investment Approvals by Year and by Area (1952-1997)  
(unit: U.S. dollar million)

| Year    | China | U.S.A. | ASEAN | Other n/s America | Others | Total |
|---------|-------|--------|-------|-------------------|--------|-------|
| -----   | ----- | -----  | ----- | -----             | -----  | ----- |
| 1952-89 | n.a.  | 865    | 429   | 140               | 90     | 1,524 |

|       |         |       |       |       |       |         |
|-------|---------|-------|-------|-------|-------|---------|
| 1990  | n.a.    | 429   | 567   | 410   | 146   | 1,552   |
| 1991  | 174     | 298   | 720   | 361   | 277   | 1,830   |
| 1992  | 247     | 193   | 309   | 256   | 129   | 1,134   |
| 1993  | 3,168   | 529   | 434   | 211   | 487   | 4,829   |
| 1994  | 962     | 144   | 398   | 844   | 231   | 2,579   |
| 1995  | 1,093   | 248   | 326   | 539   | 244   | 2,450   |
| 1996  | 1,229   | 271   | 587   | 1,172 | 135   | 3,394   |
| 1997  | 1,615   | 547   | 641   | 1,369 | 337   | 4,509   |
|       | (4,335) |       |       |       |       | (7,229) |
| 52-97 | 11,208  | 3,524 | 4,411 | 5,302 | 2,076 | 26,521  |

Source: Foreign Investment Commission

Notes:

(1) Statistics for 1993 include investments made prior to 1993 but not previously registered.

(2) Figures in parentheses include investments made prior to 1997 but not previously registered.

Table 4  
Outward Investment Approvals by Industry and by Area  
(1952-1997)(unit: U.S. dollar million)

| Industry          | PRC    | U.S.A. | ASEAN | Other | Others n/s<br>America | Tot   |
|-------------------|--------|--------|-------|-------|-----------------------|-------|
| -----             | -----  | -----  | ----- | ----- | -----                 | ----- |
| Total             | 11,208 | 3,525  | 4,411 | 5,302 | 2,076                 | 26522 |
| Banking & Insur   | 24     | 786    | 298   | 3,405 | 353                   | 4,866 |
| Electronics       | 2,035  | 875    | 1,132 | 250   | 167                   | 4,459 |
| &Electrical       |        |        |       |       |                       |       |
| Chemicals         | 716    | 745    | 373   | 47    | 18                    | 1,899 |
| Basic Metals      | 1,008  | 23     | 595   | 8     | 96                    | 1,730 |
| & Products        |        |        |       |       |                       |       |
| Food & Beverage   | 1,108  | 162    | 164   | 37    | 30                    | 1,501 |
| Trade             | 92     | 160    | 51    | 512   | 532                   | 1,347 |
| Services          | 268    | 306    | 29    | 315   | 326                   | 1,244 |
| Textiles          | 624    | 1      | 474   | 17    | 117                   | 1,233 |
| Non-metallic      | 745    | 6      | 380   | 2     | 15                    | 1,148 |
| & Minerals        |        |        |       |       |                       |       |
| Plastics Products | 992    | 3      | 26    | 4     | 3                     | 1,028 |
| Others            | 3,596  | 458    | 889   | 705   | 419                   | 6,067 |

Source: Foreign Investment Commission

Table 5  
Technical Cooperation Projects by Year and by Area  
(1952-1995)(unit: number of projects)

| Year  | Japan | U.S.A. | Europe | Others | Total |
|-------|-------|--------|--------|--------|-------|
| ----- | ----- | -----  | -----  | -----  | ----- |
| 52-89 | 1,996 | 728    | 412    | 103    | 3,221 |

|       |       |       |     |     |       |
|-------|-------|-------|-----|-----|-------|
| 1990  | 106   | 54    | 30  | 10  | 200   |
| 1991  | 80    | 65    | 33  | 8   | 186   |
| 1992  | 193   | 50    | 19  | 10  | 175   |
| 1993  | 85    | 50    | 34  | 12  | 181   |
| 1994  | 70    | 39    | 24  | 6   | 139   |
| 1995  | 50    | 29    | 10  | 5   | 94    |
| 52-95 | 2,483 | 1,015 | 562 | 136 | 4,196 |

Source: Foreign Investment Commission

Note: Taiwan ceased to compile statistics on technical cooperation with foreign companies in 1996. Businesses have not been required to report technical cooperation projects to the FIC since the Statute for Technical Cooperation was abolished.

Table 6  
Technical Cooperation Projects by Industry and by Area  
(1952-1995)(unit: number of projects)

| Industry                     | Japan | U.S.A. | Europe | Others | Total |
|------------------------------|-------|--------|--------|--------|-------|
| -----                        | ----- | -----  | -----  | -----  | ----- |
| Total                        | 2,483 | 1,015  | 562    | 136    | 4,196 |
| Electronics<br>& Electrical  | 708   | 416    | 106    | 16     | 1,246 |
| Chemicals                    | 416   | 203    | 160    | 28     | 807   |
| Machinery                    | 368   | 68     | 97     | 9      | 542   |
| Basic Metal<br>& Products    | 329   | 55     | 53     | 6      | 443   |
| Other Services               | 111   | 106    | 27     | 42     | 286   |
| Rubber Products              | 131   | 32     | 21     | 4      | 188   |
| Non-metallic<br>Minerals     | 97    | 22     | 24     | 2      | 145   |
| Food and Beverage            | 80    | 38     | 13     | 9      | 140   |
| Textiles                     | 47    | 21     | 8      | 2      | 78    |
| Construction                 | 38    | 5      | 10     | 4      | 57    |
| Garment & Footwear           | 18    | 14     | 4      | 3      | 39    |
| Paper Products<br>& Printing | 19    | 13     | 4      | -      | 36    |
| Transport Equipment          | 20    | 2      | 8      | 1      | 31    |
| Others                       | 101   | 20     | 27     | 10     | 149   |

Source: Foreign Investment Commission

Note: Taiwan ceased to compile statistics on technical cooperation with foreign companies in 1996. Businesses have not been required to report technical cooperation projects to the FIC since the Statute for Technical Cooperation was abolished.

Table 7  
Selected Major U.S. Investments in Taiwan

| U.S. Investor/Local Investment<br>-----                  | Major Product<br>-----                               |
|--|--|
| Ensite Limited (Ford Motor)/Ford Lio<br>Ho Motor Co.     | Autos  |
| Texas Instruments Inc./                                  | Semiconductors                                       |
| Texas Instrument Taiwan, Ltd.                            |  |
| AMOCO Chemical Corp./China American<br>Petrochemical Co. | Petrochemicals                                       |
| E. I. Dupont de Nemours/Dupont Taiwan                    | Industrial, electronic<br>& Agricultural<br>products |
| IBM Corp./IBM Taiwan                                     | Computers: sales &<br>services                       |
| Motorola Inc./Motorola Electronics Taiwan                | Integrated Circuits                                  |
| AETNA Life Insurance Co./Taiwan branch                   | Insurance  |
| GTE/Pacific Communications Services                      | Mobile phone services                                |
| Warner Village Cinema Co./Warner Village<br>operation    | Movie theater  |
| Cinema (Taiwan) Co.                                      | operation  |
| Southwestern Bell/TransAsia<br>Telecommunications Co.    | Mobile phone services                                |
| Source: AIT/Taipei                                       |  |

Table 8  
Selected Major Japanese Investments in Taiwan

| Japanese Investor/Investment<br>-----                           | Major Products<br>----- |
|---|-------------------------|
| Nissan Motors/Yue Loong Motors                                  | Autos                   |
| Toyota Motor/Kuozui Motor                                       | Autos                   |
| Matshshita Electronic Co./Matshshita<br>Electronic (Taiwan) Co. | Electrical appliances   |
| Sankyo Co./Sankyo Co. Taipei                                    | Pharmaceuticals         |
| Idemitsu Co./Shinkong Idemitsu Corp                             | Petrochemicals          |
| Mitsui Co./Mitsui (Taiwan)                                      | Trading                 |
| Takashimaya Co./Ta-ya Takashimaya<br>Dept. Store                | Department store        |
| Toshiba Co./Toshiba Compressor (TW)                             | Compressors             |
| Sumitomo Co./Sumitomo (Taiwan)                                  | Trading                 |
| Diamond Housing Co./Diamond Investment Co.                      | Consulting              |
| Sadagawa Steel/Sheng Yu Steel Co.                               | Steel                   |
| Shin-Etsu Handotai Co./Shin-Etsu<br>Handotai Taiwan Co.         | Semiconductors          |
| Mitsubishi Electrical Co./Powerchip<br>Semiconductor Corp.      | DRAM                    |

Source: Foreign Investment Commission

Table 9

## Selected Major European Investments in Taiwan

| European Investor/Investment<br>-----                     | Major Products<br>-----       |
|---|-------------------------------|
| Volkswagen Ag/Ching Chung Motor Co.                       | Machinery                     |
| Dresdner Bank Ag/Grand Cathay Securities                  | Securities                    |
| Imperial Chemical Inc./ICI Taiwan Ltd.                    | Chemicals,<br>pharmaceuticals |
| N.V. Philips/Philips Electronics (Taiwan)                 | Electronics                   |
| SHV International Ag/Macro Taiwan Ltd.                    | Wholesale and retail<br>trade |
| Refa Ltd./Ciba Geigy Taiwan                               | Chemicals                     |
| Internallianz Bank, Zurich/Kwang Hwa<br>Securities        | Securities                    |
| Horwood Investment/Chi Mei Industry Co.                   | Chemicals                     |
| H.S. Development & Finance/China Trust<br>Commercial Bank | Banking                       |
| Siemens Ltd./Promos Technologies Inc.                     | DRAM                          |

Source: Foreign Investment Commission

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<NREC>TaiwanA05 Taiwan: U.S. and Country Contacts <A>=Taiwan

### Appendix E: U.S. and Country Contacts

#### 1. U.S. Trade Related Contacts -----

American Institute in Taiwan (AIT)  
Commercial Section  
Chief: William Brekke  
Deputy Chief: Rosemary Gallant  
Suite 3207, 333 Keelung Rd., Sec. 1, Taipei, Taiwan  
Tel: 886-2-2720-1550, Fax: 886-2-2757-7162

Agriculture Section  
Chief: Debra Henke  
Trade Officer: Daniel Martinez  
7, Lane 134, Hsin Yi Rd., Sec. 3, Taipei, Taiwan  
Tel: 886-2-2709-2000, 886-2-2332-7981  
Fax: 886-2-2709-2054, 886-2-2305-2120

Economic Section  
Chief: Marc Wall  
Deputy Chief: Matthew Matthews

7, Lane 134, Hsin Yi Rd., Sec. 3, Taipei, Taiwan  
Tel: 886-2-2709-2000, Fax: 886-2-2706-3023

Washington-Based Country Contacts

-----

AIT/Washington  
Trade and Commercial Programs  
Director: Ray Sander  
Suite 1700, 1700 N. Moore Stret  
Arlington, VA 22209  
Tel: 703-525-8474, Fax: 703-841-1385

U.S. Department of Commerce  
Taiwan Desk Officers  
Laurette Newsom  
Room 2327, 14th and Constitution Ave. NW  
Washington, D.C. 20230  
Tel: 202-482-4681, Fax: 202-482-4098

U.S. Department of Commerce  
US&FCS East Asia Pacific  
Director: Alice Davenport  
Room 1229, 14th and Constitution Ave. NW  
Washington, D.C. 20230  
Tel: 202-482-2429, Fax: 202-482-5179

U.S. Department of Commerce  
Trade Information Center  
Room 7424, 14th and Constitution Ave. NW  
Washington, D.C. 20230  
Tel: 1-800-USA-TRADE

U.S. Department of Agriculture  
Foreign Agricultural Service  
Trade Assistance and Promotion Office  
South Building, 14th and Independent Ave. SW  
Washington, D.C. 20250  
Tel: 202-720-7420

2. AmCham and/or Bilateral Business Councils

-----

American Chamber of Commerce  
President: Jeffrey Williams  
Rm. 1012, 96 Chungshan N. Rd., Sec. 2, Taipei, Taiwan  
Tel: 886-2-2581-7089, Fax: 886-2-2542-3376

China External Trade Development Council  
Secretary-General: Ricky Y.S. Kao  
3-8F, 333 Keelung Rd., Sec. 1, Taipei, Taiwan  
Tel: 886-2-2725-5200, Fax: 886-2-2757-6653

### 3. Trade or Industry Associations

-----  
Chinese National Association of Industry & Commerce

Chairman: Jeffrey Koo

13F, 390 Fuhsing S. Rd., Sec. 1, Taipei, Taiwan

Tel: 886-2-2707-0111, Fax: 886-2-2701-7601

Chinese National Federation of Industries

Chairman: Kao Chin-yen

12F, 390 Fuhsing S. Rd., Sec. 1, Taipei, Taiwan

Tel: 886-2-2703-3500, Fax: 886-2-2703-3982

### 4. Public Agencies

-----  
Ministry of Economic Affairs (MOEA)

Minister: Wang Chih-Kang

15 Foochow St., Taipei, Taiwan

Tel: 886-2-2321-8124, Fax: 886-2-2391-9398

Ministry of Finance (MOF)

Minister: Paul C. H. Chiu

2 Aikuo W. Rd., Taipei, Taiwan

Tel: 886-2-2322-8006, Fax: 886-2-2321-1205

Board of Foreign Trade (BOFT), MOEA

Director General: Chen Ruey-long

1 Hukou St., Taipei, Taiwan

Tel: 886-2-2321-0717, Fax: 886-2-2351-3603

Ministry of Transportation and Communications (MOTC)

Minister: Fong-Cheng Lin

2 Changsha St., Sec. 1, Taipei, Taiwan

Tel: 886-2-2349-2000, Fax: 886-2-2389-6009

Directorate General of Telecommunications, MOTC

Director General: Chien Jen-Ter

16 Chi-Nan Rd., Taipei, Taiwan

Tel: 886-2-2343-3953, Fax: 886-2-2343-3772

Council of Agriculture (COA), Executive Yuan

Chairman: Peng Tso-Kwei

37 Nanhai Rd., Taipei, Taiwan

Tel: 886-2-2311-9175, Fax: 886-2-2361-4397

Council for Economic Planning and Development (CEPD)

Chairman: Chiang Pin-kung

3, Paoching Rd., Taipei, Taiwan

Tel: 886-2-2316-5306, Fax: 886-2-2370-0403

Department of Health (DOH), Executive Yuan

Director-General: Chan Chi-Shean M.D.  
100 Aikuo E. Rd., Taipei, Taiwan  
Tel: 886-2-2396-7166, Fax: 886-2-2341-8994

Environmental Protection Administration (EPA), Executive Yuan  
Administrator: Hsung-hsiung Tsai  
41 Chunghua Rd., Sec. 1, Taipei, Taiwan  
Tel: 886-2-2321-7888, Fax: 886-2-2371-9759

#### 5. Market Research Firms (Partial Listing)

-----  
Dun & Bradstreet International Ltd., Taiwan Branch  
General Manager: James B. Barnett  
12F, 188 Nanking E. Rd., Sec. 5, Taipei, Taiwan  
Tel: 886-2-2756-2922, Fax: 886-2-2749-1936

AC Nielsen  
Managing Director: Titan Wang  
12F, 188 Nanking E. Rd., Sec. 5, Taipei, Taiwan  
Tel: 886-2-2756-8668, Fax: 886-2-2754-8883

Investec-Coopers Lybrand Consulting Ltd.  
Managing Director: Michael McNabb  
3/F, 367 Fu Hsing N. Rd., Taipei, Taiwan  
Tel: 886-2-2715-2822, Fax: 886-2-2545-1185

#### 6. Commercial Banks (Partial Listing)

-----  
American Express Bank, Ltd.  
Senior Director & Gen. Mgr: Howard Law  
3rd & 4th Fl, 214 Tunhwa N. Rd., Taipei, Taiwan  
Tel: 886-2-2715-1581, Fax: 886-2-2713-0263

Citibank, N.A.  
Corporate Officer: Peper Baumann  
52 Minsheng E. Rd., Sec. 4, Taipei, Taiwan  
Tel: 886-2-2715-5931, Fax: 886-2-2712-7388

Bank Boston, N.A. Taipei Branch  
VP Corporate Banking: Francis Wu  
5F, 137 Nanking E. Rd., Sec. 2, Taipei, Taiwan  
Tel: 886-2-2506-3443, Fax: 886-2-2517-1653

Bank of Taiwan  
Chairman: James C.T. Lo  
120, Chungking S. Rd., Sec. 1, Taipei, Taiwan  
Tel: 886-2-2349-3456, Fax: 886-2-2331-5840

International Commercial Bank of China  
Chairman: James T.T. Yuan

100 Chilin Rd., Taipei, Taiwan  
Tel: 886-2-2563-3156, Fax: 886-2-2561-1216

The Multilateral Development Bank  
Office Director: Janet Thomas  
14th and Constitution, NW  
Washington, D.C. 20007  
Tel: 202-482-3399, Fax: 202-482-5179

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<NREC>TaiwanA06 Taiwan: Available Market Research <A>=Taiwan

## **Appendix F: Market Research**

### **A. List of FY'98 Industry Subsector Analysis (ISA)**

| No. | Subject                               |
|-----|---------------------------------------|
| --- | -----                                 |
| 01. | Chemical analysis instruments         |
| 02. | Gas fired generating equipment        |
| 03. | Semiconductor manufacturing equipment |
| 04. | Intranet software                     |
| 05. | PCs and peripherals                   |
| 06. | Cancer diagnostic/therapy equipment   |
| 07. | Direct marketing                      |
| 08. | Sporting goods apparel                |
| 09. | Cellular telecommunications equipment |
| 10. | Cable television equipment            |
| 11. | Process controls (user industries)    |
| 12. | Automotive transmission parts         |
| 13. | Specialty chemicals                   |
| 14. | Solid waste treatment equipment       |
| 15. | Air pollution control equipment       |

### **B. ISA Plan for FY 1999**

|     |                                     |
|-----|-------------------------------------|
| 01. | Fitness Equipment                   |
| 02. | Steel Products Production Equipment |
| 03. | Buses                               |
| 04. | Bio Technology/Test Kits            |
| 05. | Boilers                             |
| 06. | Water Pollution Control Equipment   |
| 07. | Engineering Services: Design        |
| 08. | Sports Rehabilitation Equipment     |
| 09. | Virtual Private Network Services    |
| 10. | Semiconductor Design Equipment      |

11. Chemical Production Machinery
12. Engineering Plastics
13. Industrial Waste Treatment Equipment
14. Systems Integration Services
15. Dietary Supplements

Note: A complete list of ISA reports is available on the NTDB.

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<NREC>TaiwanA07 Taiwan: Trade Event Schedule <A>=Taiwan

### **Appendix G: Trade Event Schedule**

Event name: American Education Fair in Taiwan-Taipei  
American Education Fair in Taiwan-Kaohsiung  
Event date: October 24-25, 1998-Taipei; October 26-27, 1998-  
Kaohsiung

Industry theme: EDS  
Type of event: TFO (trade fair overseas procured)  
Location: Taipei and Kaohsiung  
Background of participants: educational institutions

Event name: 1998 Franchising Matchmaker  
Event date: Nov. 2-3, 1998  
Industry theme: FRA  
Type of event: MKR  
Location: Taipei  
Background of participant: Manufacturers and agents

Event name: Taipei Int'l Medical Equipment & Pharmaceuticals  
Show (MEDIPHAR'98)  
Event date: Nov. 11-14, 1998  
Industry theme: MED, HCS, BTC, DRG, and computer products for  
medical purposes  
Type of event: TFO (Trade Fair Overseas Procured)-USA Pavilion  
Location: Taipei World Trade Center  
Background of Participants: Manufacturers and agents

Event name: Computex Taipei '99  
Event date: June 1-5, 1999  
Industry theme: CPT (computers & peripherals)  
Type of event: TFO (Trade Fair Overseas Procured)-USA Pavilion  
Location: Taipei World Trade Center  
Background of Participants: Manufacturers and sales agent

Event name: 1999 Taipei Int'l Food Industry Show

Event date: June 9-12, 1999  
Industry theme: FPP, FOD, MFI  
Type of event: TFO (Trade Fair Overseas Procured)-USA Pavilion  
Location: Taipei World Trade Center  
Background of Participants: Manufacturers, sales agents

Event name: America Week '99  
Event date: June-July 1999  
Industry theme: APP, GCG, HCG (household and consumer goods, food products)  
Type of event: PIP (post-initiated promotion)  
Location: department stores throughout Taiwan  
Background of Participants: Exporters of household and consumer goods

Event name: 1999 Taipei Computer Applications Show  
Event date: August 4-8, 1999  
Industry theme: CPT, CSF, CSV (software applications)  
Type of event: TFO (Trade Fair Overseas Procured)-USA Pavilion  
Location: Taipei World Trade Center  
Background of Participants: Manufacturers, sales agents

Event name: 1999 Taipei Aerospace Technology Show  
Event date: Aug. 14-17, 1999  
Industry theme: AIR  
Type of event: PVF (Privatized Fair)  
Location: Taipei World Trade Center  
Background of Participants: Manufacturers, sales agents

Event name: American Education Fair in Taiwan-Taipei  
American Education Fair in Taiwan-Kaohsiung  
Event dates: March 11-12, 1999-Kaohsiung; March 13-14, 1999-Taipei  
Industry theme: EDS  
Type of event: TFO (trade fair overseas procured)(Part of the USDOC's STUDY USA Asian Mid-Winter Tour)  
Location: Taipei and Kaohsiung  
Background of participants: educational institutions

Event name: 1999 American Dining Experience  
Event date: August 1999  
Industry themes: FOD  
Type of event: PIP (post-initiated promotion)  
Location: Kaohsiung  
Background of participants: Exporters of food products

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